Austria	Sch22	Indonesia	Rp3100	Portugal	Esc120
Bahrain	Din0.650	Israel	NS3.50	S.Arabia	Rls7.00
Belgium	BFr48	Italy	L1700	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta145
Cyprus	C£0.90	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr10.00	Kuwait	Fils.500	Sweden	SKr9.00
Egypt	E£2.25	Lebanon	$US1.00	Switz	SFr2.30
Finland	Fmk7.00	Lux	LFr48	Taiwan	NT$85
France	FFr6.50	Malaysia	Rlnt4.25	Thailand	Bt50
Germany	DM2.50	Mexico	Pe300	Tunisia	Din0.800
Greece	Dr120	Morocco	Dh6.00	Turkey	L600
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr10.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,571 Thursday June 23 1988 D 8523 A

Towards a single currency for Europe, Page 17

World News

Iran pledges to find hostages in Lebanon

Four British politicians returned to London from Tehran with an Iranian pledge to "help locate" British hostages in Lebanon. The hostages are Church of England envoy Terry Waite, journalist John McCarthy and Belfast teacher Brian Keenan, who holds joint British-Irish nationality.

The official Iranian news agency quoted one of the British MPs, Mr Robert Hicks, as saying that the "time is ripe" for Tehran and London to improve relations after years of strain. Modest success, Page 4

Europe-wide vote

The European Community proposed allowing citizens of member states to vote and stand as candidates in local elections in other Community countries. EC Commissioner Carlo Ripa de Meana said the proposals would end an anomaly whereby citizens were guaranteed free movement throughout the 12-nation bloc without being able to vote.

Moscow takes reprisals

Moscow retaliated for the expulsion and barring of 17 Soviet diplomats from Canada by kicking out two Canadian diplomats and telling three others they are not welcome.

Fire in Egypt kills 47

Forty-seven Egyptian pilgrims, including 27 children, were burned or trampled to death after a blaze swept through tents at a remote Christian monastery.

Talks on New Caledonia

Two teams of Melanesians and pro-French settlers flew into Paris for talks aimed at bringing an end to fighting on the troubled South Pacific territory of New Caledonia.

Albanian protests

A group of 250 ethnic Albanians protested in the Yugoslav Parliament in Belgrade against demolition of traditional walls around their houses and abolition of Albanian language schools.

Johannesburg bomb

At least six people were injured when a limpet mine exploded in an amusement arcade in central Johannesburg. Two of the six were seriously hurt. Page 4

African dam agreement

Portugal, Mozambique and South Africa signed a financial and security accord aimed at reactivating Africa's biggest hydro-electric plant. The 2,000-megawatt Cabora Bassa dam has been crippled by attacks from right-wing rebels. Page 4

Vietnam names Premier

Vietnam named Do Muoi, who has directed purges against corruption in Vietnam's ruling Communist Party, as Prime Minister at the opening session of its parliament in Hanoi. Page 4

Leaks at Bhopal plant

Two minor leakages of acid from a storage tank at the closed Union Carbide plant at Bhopal were detected this week, the Press Trust of India reported.

Rangoon street battles

Burmese authorities arrested 77 people after further street battles in Rangoon as protesters and riot police clashed for the second day.

Manigat seeks support

Ousted Haitian President Leslie Manigat said he would tour the United States, the Caribbean and Europe to seek international backing for the restoration of democracy in his country.

Hyundai rejects claim

Hyundai Motor Co., South Korea's largest carmaker, remained closed as management rejected a union demand for payment of wages during the strike.

Business Summary

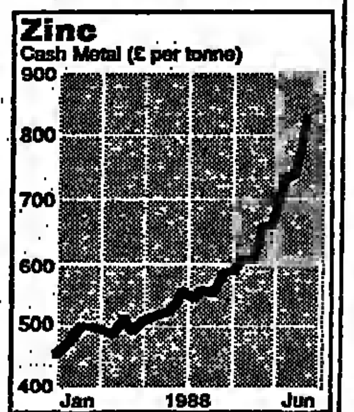
Wall Street advances to best level since crash

WALL STREET shares closed at their highest levels since the October crash with the Dow Jones Industrial Average finishing up 43.03 at 2152.2. Dealers said the market was helped by a stronger dollar, falling bond market yields, and a more positive inflation outlook. Page 40

GRAND METROPOLITAN of the UK said it agreed to sell two bottling companies to Pepsico of the US for $705m. Leaseback deal, Page 13

VOLVO of Sweden, agreed to pay $100m cash for 20 per cent of Hertz car rental, controlled by Ford, of the US. Page 18

ZINC prices rose further on the London metal exchange, with the cash position closing up £19 at



£824 a tonne. The 3-month contract also rose sharply to close above £773 a tonne. Page 28

CRA, Melbourne-based mining company, is to combine its base metals operations with those of North Broken Hill Holdings, creating the world's biggest zinc producer. Page 21

LONDON: The FT-SE 100 index rose 19.2 to 1,879.3 with international issues in favour. Page 37

TOKYO: The Nikkei average ended 64.79 lower at 27,860.78, its third consecutive loss. Page 40

DOLLAR closed in New York at DM1.7817, Y128.925, SFr1.4755, and FFr6.0035. It closed in London at DM1.779 (DM1.7575); Y128.65 (Y126.45); SFr1.4735 (SFr1.4625); and FFr5.985 (FFr5.93) Page 29

STERLING closed in New York at $1.7655. It closed in London at $1.7685 ($1.7855), DM 3.1475 (DM3.1375); Y227.5 (Y225.75); SFr2.605 (SFr2.6125) and FFr10.585 (FFr10.5875). Page 29

CABLE & WIRELESS, international telecommunications group, has bought a 2.8 per cent stake in Racal, UK electronics company. Page 19; Results, Page 24

FEDERAL Home Loan Bank Board is working on a deal to merge 64 ailing thrifts with 16 separate healthy ones, board member Roger Martin said. The mergers could be completed by mid August, he added. Risk-free investment, Page 17

PHILADELPHIA Stock Exchange is investigating possible trading violations involving stock options in shares in Farmers Group, fighting off a $4.5bn takeover bid from BAT Industries. Page 19

BANK OF NEW YORK threatened to withdraw its $75 a share bid for Irving Bank by noon today and return to the courts in an attempt to consummate an earlier tender offer, worth about 10 per cent less. Page 19

BOND CORPORATION'S proposed acquisition of the Bell Group was challenged by a A$77m (US$63.6m) bid by Ron Brierley and Kerry Packer for a cash-rich Bell subsidiary. Page 20

INDUSTRIAL BANK of Japan announced a record Y279bn ($2.2bn) rights issue, only nine months after making a Y213bn cash call. Page 20

LTV, US steel, defence and energy products group, received a boost to its Chapter 11 reorganisation plans when a Federal judge ruled it could not be forced to reassume more than $2bn in pension obligations. Warning to US steel industry, Page 19

Estonia to make nationalist demands on Gorbachev

BY QUENTIN PEEL IN MOSCOW

RADICAL PROPOSALS for the devolution of economic and political power from Moscow are to be presented to next week's special Communist Party conference by the Baltic republic of Estonia, in a startling new manifestation of nationalist demands on the Soviet regime.

The proposals, to give far greater economic and budget autonomy to the republic, have been endorsed by the newly-installed Communist Party leader, Mr Vaino Vaeljas, who was appointed only last week.

They come on top of a rising tide of nationalist sentiment from the Soviet Union's southern republics, with Armenia and Azerbaijan now locked in open dispute over the fate of the mountain enclave of Nagorno-Karabakh, where thousands of Armenian protestors are demanding a change in their status.

The Estonian proposals show the extent to which the reform programme of Mr Mikhail Gorbachev, the Soviet leader, has encouraged an upsurge in independent thinking inside and outside the Communist Party. They also coincide with a major opinion survey in the Soviet Union suggesting widespread public scepticism about Mr Gorbachev's *perestroika*.

The survey showed that a large majority feared the economic reforms were "a lot of talk" and that the conditions did not exist to enforce the proposed changes. It also showed that many industrial workers had yet to see any change in their wages or working conditions.

The Estonian programme has been drawn up by leading economists and intellectuals in the republic, whose 1.5m people enjoy the highest per capita income in the Soviet Union.

It has been sharply criticised by economic advisers to Mr Gorbachev, including Mr Abel Aganbegyan, but nonetheless continues to enjoy strong popular support in the region, and has now been extended to include political as well as economic demands.

It calls for Estonia and the other 14 Soviet republics to be given the right to decide their own prices, wages and public authority budgets independently of Moscow, with what it describes as full economic autonomy by 1990.

At the same time, the pro-

Continued on Page 18

Disenchantment with reform and IMF contact, Page 2; Illusion of unanimity, Page 16

Brazil reaches accord on record $62bn debt rescheduling package

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT, IN LONDON

BRAZIL yesterday reached preliminary agreement on a record debt rescheduling and new loans package with its leading creditor banks. The deal came after last-minute disagreements, which threatened to delay finalising the package, were ironed out.

The accord, announced by Mr Mailson da Nobrega, Brazil's Finance Minister, and Mr William Rhodes, chairman of the 14 member committee representing Brazil's more than 700 bank creditors, will reschedule $62bn of Brazil's bank debt over 20 years and provide $5.2bn in new funds to be repaid over 12 years.

Mr da Nobrega also announced that Brazil would make a payment of $350m to its creditor banks tomorrow to cover interest for March this year and a further $1bn on June 30 to cover interest arrears for April and May.

The agreement will formally end a moratorium on interest payments on medium-term foreign debt to banks declared by Brazil in February 1987. The moratorium by the largest of the developing country debtors, which was effectively ended when Brazil made interest payments at the end of last year, presented a significant challenge to the international financial order, but was subsequently described by the Government as a mistake.

Mr da Nobrega said the agreement, which will also cut interest rates on Brazil's debt, was "the best debt accord that any Third World country has ever had."

The interest rate margin in the new package is 13/16 percentage point over money market rates, compared with an average 1.7 points at present.

However, the task of encouraging creditor banks to join the package has been an onerous one. This is the first large new money package for a rescheduling country since big banks in the US, Canada and Britain made heavy debt provisions early last year. In the wake of those, banks are discouraged from lending further new money because they most immediately make further provisions for loan losses.

For this reason, the accord includes the most extensive menu of options yet seen for banks, to allow them to help Brazil while being able to avoid the complications of further new money packages. The options include an ability to take exit bonds, paying interest of 6 per cent, instead of putting in the new money, and various debt-to-equity swap schemes.

Final hurdles, Page 3

Britain raises interest rates on inflation fears

BY SIMON HOLBERTON IN LONDON AND JANET BUSH IN NEW YORK

BRITAIN yesterday signalled its concern over the inflation outlook and engineered a ½ point rise in base rates to 9 per cent. The Government presented the move as underlining its commitment to forestall any outbreak in inflation pressures and not part of a concerted international effort to raise interest rates. On Tuesday, West Germany increased interest rates.

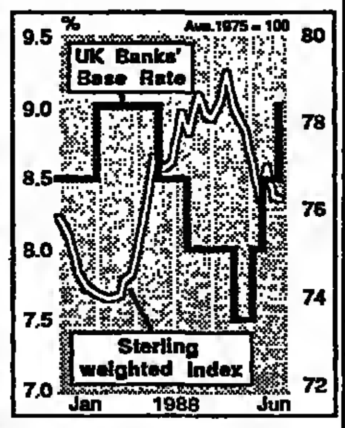
The British move, which was triggered by the Bank of England during its noon money market operations, returns base rates to the level prevailing at the time Mr Nigel Lawson, Chancellor of the Exchequer, delivered his Budget in March, and follows an unprecedented 3½ months in which rates have been cut three times and raised by as many.

On Wall Street, on the other hand, markets were buoyed by a rally in the dollar and official figures which lessened the market's fears of inflation. By mid-session, the Treasury's benchmark 30-year long bond was quoted 1½ point higher, taking its yield below 9 per cent to 8.92 per cent. The Dow Jones Industrial Average closed 43.03 points higher at 2,152.20, its highest close since the October crash.

The dollar rose strongly and the most encouraging aspect of it for US financial markets was that it was achieved despite rising interest rates in West Germany and Japan and the UK.

Surging bond and equity prices reflected hopes that a more stable dollar would attract foreign investment to US securities markets and that the surge in the dollar in Tokyo may already reflect renewed investment in the US by Japanese institutions.

The bond market was also encouraged by news of a 2.2 per cent fall in durable goods orders, suggesting that industrial output may slow in the third quarter, thus lessening fears that the



economy may overheat.

Despite the size of gains on the equity market, traders said there was little substantial institutional buying. They said computerised stock index arbitrage trades as the futures rose to a five point premium to underlying stocks in the cash market accounted for much of the initial 40 point surge in the Dow.

At close in New York, the dollar was Y128.925 and DM1.7817, well up on the closing levels in London of DM1.7790 and Y128.65.

The Bank of England's decision to raise its dealing rates was followed quickly by the major clearing banks to lift borrowing costs. Building societies said they had no immediate plans to alter mortgage rates.

Treasury officials said the rise did not signal any change in government policy towards the exchange rate. The Bank intervened in foreign exchange markets as the pound climbed towards DM3.15. It closed 1 pfennig stronger at DM3.1475, but, because of the dollar's strength, it was unchanged on the Bank's trade-weighted sterling index at 75.5.

UK financial markets reacted

Continued on Page 18

UK trade unions face split after suspension threat

By Philip Bassett, Labour Editor

BRITAIN'S trade nnions looked set yesterday for their most damaging split in recent years wben the TUC General Conncil voted to give tbe 336,000-strong EETPU electricians' union two weeks' notice of suspension from the union umbrella body.

The union will be expelled from the TUC unless it complies with directives to withdraw before July 7 from two single-union, strike-free deals it has agreed with Orion Electric and Christian Salvesen, the transport gronp.

If the union is suspended it would be the first since the Transport and General Workers' Union was temporarily dismissed from the TUC in 1977.

Mr Norman Willis, TUC general secretary, insisted the notice of suspension was not directly over single-nnion or no-strike deals, bnt over EETPU's lack of compliance with the directives.

Mr Eric Hammond, tbe EETPU's general secretary, said yesterday he was saddened by tbe move, even thongh it had been expected. He said the union would contínue to to sign single-union, strike-free deals.

He said: "The TUC has made the rules so unacceptable that they have put us ont of the clnb. We shall become an independent trade union."

The suspension, if enacted, would run from July 8 until the annual TUC Congress in September. The likelihood is that Congress would vote for the EETPU's full expulsion

Suspension or expulsion of the EETPU would be likely to have two main effects. First, it could prompt widespread poaching of members between unions, which would cause both employers and employees serious operating difficulties.

The move could also bring closer the prospect of a permanent split in Britain's trade union structure, with the possible emergence of a rival formation to the TUC, which has traditionally been the sole federal union body.

In his address to the TUC council yesterday, Mr Hammond said his union was the victim of a conspiracy, conceived early last year by the TGWU transport, GMB general and Nnpe pnblic employees' unions. TUC leaders denied the cbarge, whicb the Mr Alan Tuffin, of the UCW postal workers, said was "distasteful."

Brasilia ejects Petrobras chief

BY IVO DAWNAY IN RIO DE JANEIRO

THE Departure of Col Ozires Silva as executive president of Petrobras, Brazil's state oil company, will be mourned more abroad than at home.

The offence of Col Silva, in effect dismissed by President Jose Sarney late on Tuesday, was not simply his public condemnation in a Sao Paulo newspaper of the Government's public sector pay freeze policy. More important was his broader attack on niggling interference from Brasilia in the running of the country's flagship state enterprise.

For the 57-year-old chief executive, Petrobras — the world's largest single crude oil purchaser with sales of $17bn annually — had outgrown its birthplace, where meritocracy and the bottom line frequently take a back seat to political exigencies.

Specifically, Col Silva had been fighting for: a sharp increase in the company's autonomy, including the right to trade internationally offshore through Petrobras Overseas, a new London subsidiary; a substantive reduction in the legally binding 35 per cent retail price margin between petrol and heavily subsidised alcohol fuels; and freedom for the board to make recruitment and pay decisions and allocate resources within the company, including disposal of some unwanted subsidiaries.

"We would prefer the Government to take more of a shareholders' role and look at the results," he said repeatedly.

In his two years at the corporation, Col Silva's outspoken criticism of government interference and autocratic treatment of the nationalist unionist element in his 55,000 staff have irritated many.

His achievements have been to leave the company with better organisation, more streamlined decision-making processes, enhanced international activities and more rigorous training.

However, perhaps because of his outspoken style, he has failed to win many battles in Brasilia and has seen his investment budget cut from $3bn to $2.3bn this year.

Col Silva's departure represents less a triumph for the Economics Ministry's pay plan than vengeance for Mr Aureliano Chaves, the Energy Minister who has frequently been Col Silva's unnamed target.

Ironically, however, the removal of such an admired figure may reflect more poorly on the administration than on Col Silva, who raised the state aircraft maker, Embraer, to prominence.

At home, the sacking has focused further attention on Finance Minister Mr Mailson da Nobrega's two-month freeze on the inflation-indexing of public sector pay at a time of monthly

Continued on Page 18

Maxwell 'poised for' global deal with Société Générale

BY TIM DICKSON IN BRUSSELS AND PHILIP COGGAN IN LONDON

MR ROBERT MAXWELL, the British businessman, announced last night that his company Maxwell Communications Corporation had reached an "advanced stage" of negotiations with Société Générale de Belgique to set up a joint European and global communications venture.

Mr Maxwell's statement came amid growing speculation and confusion in Brussels about the nature of the shareholder agreement this week between Mr Carlo de Benedetti, the Italian businessman and the French investment bank Compagnie Financière de Suez over the future of Société Générale de Belgique, Belgium's most powerful holding company.

Details of this accord, thought to provide for the sale of at least part of the 45 per cent stake held by Mr De Benedetti and his allies, are expected to be revealed tomorrow.

Suggestions that Mr Maxwell may be involved were fuelled yesterday by a local newspaper report and by the fact that Mr Maxwell will be in Belgium tomorrow to disclose details of MCC's plans for a listing on the Antwerp and Brussels bourses.

Mr Maxwell's statement indicated that Société Générale would be a "significant shareholder" in the joint venture "taking an active role in the management to which MCC as the other main shareholder will bring its professional expertise and be the manager and industrial operator".

The joint company would have an equity base of "several hundreds of millions of pounds".

Société Générale, seldom out of the headlines this year as a result of Mr de Benedetti's unsuccessful attempt to gain control, has stakes in more than 1,200 different businesses from financial services and cement manufacturing to diamond trading and energy.

Its telecommunications and media interests are largely held through Tractebel, a separately quoted company in which SGB has a significant minority stake. Its interests include a 66 per cent holding in Coditel, the Belgian cable TV distributor, almost 100 per cent of Mediafin, which has a participation in film distribution in France, and 5 per cent of the French media group Havas.

At MCC's annual general meeting on Tuesday, Mr Maxwell restated his ambition to make his group "one of the largest information and communications companies in the world", with turnover of between £3bn ($5.28) and £5bn a year by 1990.

Mr Maxwell's interests extend from printing in the UK and the US, through electronic databases to newspapers, French television and satellite broadcasting.

Mr Maxwell has repeatedly stressed the importance of acquisitions in his expansion plans and on Tuesday, shareholders approved an increase in MCC's borrowing powers to £2bn.

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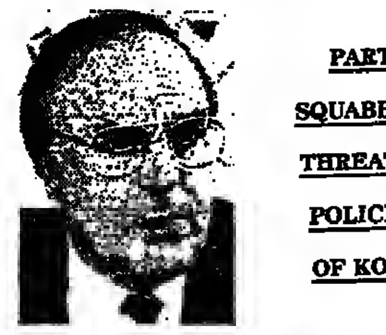

PARTY SQUABBLES THREATEN POLICIES OF KOHL

The West German Chancellor faces a tough task in keeping economic strategy on course, Page 18

Disenchantment shown with Soviet reform

BY QUENTIN PEEL IN MOSCOW

THE SOVIET public is showing distinct signs of waning enthusiasm for Mr Mikhail Gorbachev's economic reforms and scepticism about the chances of their being fully implemented, according to an opinion poll just published in Moscow.

It shows that only a tiny proportion believes big changes have already been effected in the economy and in social policy, and a substantial minority believes nothing has been achieved.

The survey, by the Institute of Sociology at the Soviet Academy of Sciences, was carried out at 120 main industrial plants and covered more than 11,000 people. It suggests that, for all the ferment in the country, very few benefits or noticeable changes from *perestroika*, Mr Gorbachev's effort to reorder the stagnating soviet economy, have percolated to the shop floor.

The poll comes at a crucial moment for the Soviet leader – less than a week before an extraordinary conference of the Soviet Communist Party is to endorse the next phase of changes. These are to include price reforms, a reduction in central planning controls, more wage differentiations, and the establishment of a competitive banking sector.

The survey shows that, although an overwhelming majority still recognises the need for economic reform, the proportion is smaller than it was a year ago: 86 per cent in 1987 against 80 per cent today. Another 10 per cent felt that it was "useful, though not really necessary in objective terms."

More daunting for Mr Gorbachev is the conclusion of more than 73 per cent that, "instead of real *perestroika*, we are just having a lot of talk." Another 33 per cent blame local bureaucracies for preventing economic reforms at this level.

Regular criticism has been made of local authorities for preventing the establishment of co-operative enterprises by individuals, and of the central government for maintaining its pervasive system of State purchasing to prevent independence at plant level.

Some changes in wage rates have begun to be felt by a few workers who receive more bonuses under the self-financing of enterprises, but only 15 per cent feel the measures are "very effective." Nearly 30 per cent reckon the effect of the reforms on their pay packets "insignificant." Even more (31.5 per cent) said they detected no changes in the pay system.

As for the expectation of a rapid growth in labour productivity – the planned target is an increase of 5 to 6 per cent a year – the proportion "positive" it can be realised has dropped from 19 per cent to 11 per cent. Almost 20 per cent "doubt the feasibility" of the aim.

Only 2.7 per cent feel there have already been "major achievements" in the economy, and 4.7 per cent acknowledge "major progress" in the social sphere. A disturbing 34.6 per cent reckoned "practically nothing has been achieved" on the economy and 31.7 per cent said the same for social policy.

Mr Gorbachev's advisers have been admitting for some time that any appreciable results of *perestroika* have been very slow in coming, and now blame the fact that only self-financing has been introduced, without a significant cut in State purchasing, and without a new price system. Tha latter is likely to be by far the most difficult and sensitive reform to introduce.

The Soviet leader seems certain to use the poll results as a spur to accelerate reforms, but his opponents may well argue at the party conference that these are now shown to be misguided.

● The conference will also face a formal request, backed by a 20,000-signature petition, to establish a memorial to the victims of Stalin's regime. Organisers of the plea claim the support of many leading writers and academics to set up an archive of material on the crimes of Stalin's era, in order to make less likely a recurrence of mass starvation, mass deportations, arbitrary executions and rigged show trials.

Armenian strikers urged to resume work

THE REGIONAL government of Nagorno-Karabakh in Azerbaijan has appealed to strikers to return to work while backing their demands for union with Soviet Armenia, a local journalist said yesterday, Reuter reports from Moscow.

The government council, meeting on Tuesday, said the Armenian population of the enclave in Azerbaijan should prove its right to self-determination by working, the journalist from the newspaper Sovetsky Karabakh said.

Authorities in Moscow acknowledged last week that Communist Party officials had lost control of the situation in Nagorno-Karabakh, which is 75 per cent Armenian.

The Nagorno-Karabakh council on Tuesday repeated its February call for incorporating the mountainous region into Armenia, rejected by the Kremlin and the Azerbaijan parliament.

The Sovetsky Karabakh reporter said the text of the council's decision had not yet been published. But he said members of the council denounced the Azerbaijani parliament's decision against ceding Nagorno-Karabakh to Armenia.

They said it didn't express the wishes of the Armenian population of Nagorno-Karabakh, he said.

The dispute has caused the worst ethnic strife in the Soviet Union in decades. At least 35 people have been killed in riots and brawls in the past four months.

A Soviet newspaper said yesterday that the situation in Armenia had calmed and many people worked an extra day last week to make up for production lost during recent strikes in support of Nagorno-Karabakh's demands.

Bonn seeks study of European currency

By David Marsh in Bonn

THE WEST German government will propose, at the EC summit next week in Hanover, that Community central bank governors draw up a study on gradual movement towards European monetary union and a common European central bank.

By suggesting that central bankers be in charge of the study, Bonn has come out in favour of a line likely to find favour with Mrs Margaret Thatcher, UK Prime Minister. She is generally sceptical about moves towards greater EC monetary integration, but is unlikely to be able to turn down an initiative entrusted to technocrats from the central banks.

Under a plan agreed by ministers and officials yesterday, West Germany will suggest that the central bankers co-opt outside experts to the study. These additional members of the panel – independent advisers or members of EC bodies such as the chairman of the EC monetary committee – will be asked to provide financial and economic policy expertise generally beyond the competence of central bankers.

In the words of one senior official yesterday, the government wants to take a "pragmatic" line in Hanover next Monday and Tuesday on monetary union.

West Germany will put its negotiating position to the other 11 Community members in its capacity as president of the EC council.

Mr Helmut Kohl, West German Chancellor, wants to find ways to improve general political and economic co-operation in Europe. Even so, like Mr Gerhard Stoltenberg, his Finance Minister, he has misgivings about initiatives for European monetary union based on anything less than sound money principles.

West German officials are generally jubilant before the summit, in view of various successes during the last six months in advancing plans for a genuine EC internal market after 1992.

Mr Lutz Stavenhagen, Chancellery Minister for European affairs, disputed, in Bonn late on Tuesday, that West Germany had been the main beneficiary so far of EC market widening. All members had attained advantages, he said, also holding out hopes of greater political co-operation, including such areas as harmonisation of member countries' guidelines on arms' sales abroad. Economic integration was the stepping-stone to "political union," said Mr Stavenhagen.

He added that greater co-operation between eastern and western Europe – evinced by recent agreement by the communist trading bloc Comecon formally to recognise the EC – would help ease the east-west division of the German nation.

Volvo launches first volume motor cars in bid to boost sales

BY KEVIN DONE, MOTOR INDUSTRY CORRESPONDENT, IN LONDON

VOLVO BV, the minority-owned Dutch affiliate of Volvo of Sweden, yesterday unveiled the company's first volume range of front-wheel drive cars, which it hopes will boost sales and production by close to 80 per cent in the next two years.

The Volvo 440 series will take the company into the upper medium segment of the West European car market for the first time against well-entrenched competitors such as the Ford Sierra, the Vauxhall Cavalier/Opel Ascona, the Renault 21, the Audi 80 and the Volkswagen Passat.

Volvo BV, which is 30 per cent owned by Volvo of Sweden and 70 per cent owned by Dutch Government interests, launched the 400 series with the 480 sports coupe in late 1986, but the new 440 range will take the company into direct competition with the big volume car makers.

The 440 which will be launched in continental European markets in September and in the UK in spring next year, is to be introduced as a five-door hatchback, but it will be followed later by a saloon version.

Volvo BV has developed the series at a cost of around Fl 1bn ($526m). Mr Geoffrey Wright, senior vice president, said that total output of the new series and the existing 300 series was expected to increase to between 135,000 and 140,000 cars this year from 125,000 units in 1987.

Production was scheduled to increase to around 160,000 in 1989, the first full year for the 440, with the new car accounting for some 80,000 to 90,000 units, and output of the existing 300 series being reduced to 40,500 to 50,000 units from 110,000 units in 1987.

Originally Volvo BV had planned to replace the 340/360 models with the new 400 series, but Mr Wright said yesterday that the 300 series would remain in production at least until the early 1990s.

Volvo BV is facing a major strategic decision over the next 18 months on whether to commit itself to the costly development of a second new car range for the mid-1990s. "We will have to decide fairly quickly," said Mr Wright. "In 1989 we would have to make some decisions. It is a question of how to make our products financially competitive at much lower volumes than our competitors."

Mr Wright said Volvo BV had reduced its breakeven point to an annual volume of 120,000 units, but the company had the ambition of increasing sales to around 200,000 units a year in the first half of the 1990s.

"We believe there is business in specialty cars. It is possible to break even at 120,000 units with a relatively simple model range," he said.

Volvo BV made heavy losses from the mid-1970s to the early 1980s, but it has been in profit since 1983 and last year increased after-tax profits to Fl 20.1m from Fl 5.4m in 1986 on a turnover of Fl 2.5bn.

"It is a tightrope for us," said Mr Wright. "It is difficult for a small company to live in the automotive world. The first job was survival. Now we must develop enough profits to continue the business through the 1990s."

The Volvo 440 will be powered by the 1.7 litre Renault engine used in various Renault models including the R5, the R9/11 and the R21. There will be three engine outputs including a 118hp turbo version. The 440 will also use a Renault-designed five-speed gearbox built under sub-contract by Volvo BV in Belgium.

Volvo BV's biggest market in Europe is the UK, which accounts for around one-third of the company's total sales of the existing 300 series and the 480 coupe.

UK sales of the 300 series were expected to total some 42,000 this year, compared with 39,000 in 1987. With the addition of the 400 series Volvo would be able to compete in about 65 per cent of the UK market, and Volvo BV hoped the new car would help it to penetrate the UK fleet market for the first time.

West Germany eases law on shop opening hours

BY DAVID GOODHART IN BONN

THE WEST GERMAN cabinet yesterday approved a slight relaxation in the country's strictly enforced shop opening hours legislation, which will allow shops to stay open until 9pm on Thursdays.

The current opening hours legislation – passed in 1956 – which ensures shops close each weekday at 6.30pm and all but one Saturday a month at 2pm is often seen outside Germany as a symbol of stifling over-regulation and inflexibility.

There is, however, united opposition to change from shop workers and the larger retailing employers.

Malta visit by UK navy postponed

By Godfrey Grima in Valletta

THE BRITISH Royal Navy yesterday postponed a visit to Malta for 24 hours until Saturday in the hope that a face-saving deal might be agreed which would allow four warships to enter harbour without having to declare whether they are carrying nuclear arms.

Intensive negotiations were taking place in Malta yesterday in a bid to ward off a clash between Premier Dr Eddie Fenech Adami's Christian Democratic Government and the opposition Labour Party, backed by the island's 30,000-strong General Workers Union (GWU).

The opposition party, led by Dr Carmelo Mifsud Bonnici, and the GWU are also objecting to freqnent calls by Nato warships which, they insist, go against Malta's neutral and non-aligned status.

In a move clearly aimed at placating dissent the Government is to table a motion in parliament condemning the entry of nuclear weapons to Malta. The opposition, in an amendment, will call on foreign states to respect Malta's neutrality.

Astra plans more TV

Société Européenne des Satellite, the Luxembourg company behind Astra, the 16-channel television satellite project, has decided to order a second satellite to be launched in 1990, writes Raymond Snoddy.

The new satellite will mean that apart from having back-up for Astra, scheduled to be launched in November, SES will have the capacity to broadcast 32 channels of television throughout Western Europe.

Earlier this month Mr Rnpert Murdoch signed a 10-year agreement with SES for three channels on Astra with an option for a fourth.

Portugal misses goal

An annual inflation rate which reached 8.9 per cent in May is thwarting the Portuguese Government's efforts to force it below the 6 per cent December target set by the Finance Minister, Mr Miguel Cadilhe, writes *Diana Smith* in *Lisbon*.

But the rate is better than the 31 per cent of 1982, or 19 per cent when the Anibal Cavaco Silva government took office in 1985. Businesses unable to borrow and banks stuck with excess liquidity are getting irritated that the Government has prolonged credit ceilings supposed to have ended in the spring.

Heavy water probe

Norway yesterday promised a full inquiry into the export of heavy water (used to control and cool the reaction of nuclear reactors) following allegations that shipments made by Norsk Hydro, Norway's diversified energy group, to Rohstoff Einfuhr, a West German company, were diverted via Switzerland to India which used the chemical to produce atomic weapons, writes Karen Fossli in Oslo.

Norway's heavy water export business has been under scrutiny for several months since Norwegian officials were denied access by Israeli officials to inspect nuclear sites.

Airlift anniversary

A report in Monday's edition on the 40th anniversary of the Berlin airlift incorrectly identified the British Foreign Secretary at the time. It was Mr Ernest Bevin.

French centrists jockey for government role

BY IAN DAVIDSON IN PARIS

THE cabinet of French prime minister Mr Michel Rocard resigned yesterday as leading politicians of the centre-right jockeyed for a possible role in government.

Mr Rocard will form a new government, and outline government policy next week.

Both Mr Rocard and President Francois Mitterrand have repeatedly urged an opening to the centre, to secure a wider base for government. But his initial overture failed to recruit many prominent centrists into his first cabinet, and it seems probable that his second will have to rule as a minority government.

On the other hand, the past few days have been dominated by manoeuvring by leading centrists, seeking a constructive relationship with the socialist government.

First to move was the small centrist CDS party, which declared itself an independent political group in the Assembly. The step was criticised as a betrayal by its allies in the UDF centre-right grouping. The CDS leader, Mr Pierre Mehaignerie, at first insisted his party would remain in opposition, but this week he has started hinting at a "broad union" government in the future.

His shift has been followed by former President Valéry Giscard d'Estaing, and by former prime minister Raymond Barre. After Mr Mitterrand's re-election, Mr Giscard d'Estaing held the UDF together on a platform of "constructive opposition" towards the socialist government. But this week he called for a government of national unity, with half of its ministers coming from the Socialist Party and half from the conservative parties.

And yesterday Mr Barre announced the formation of an informal grouping of 30 members of the UDF in the Assembly. This will not be an independent party, but Mr Barre went further than either Mr Mehaignerie or Mr Giscard d'Estaing, by announcing that he would support the socialist government "every time that he judged it necessary for the country".

Meanwhile the struggle for control of the RPR neo-Gaullist party is now in the open. Mr Bernard Pons, a hardline Gaullist of the old school, has been elected leader of the Gaullist Assembly members. But the fact be only secured one vote more than Mr Philippe Seguin, a yonnger reformist member of the party, promises battles to come after defeats for the Gaullists in the presidential and general elections.

Poor outlook for telecom sales by Italy and Britain

BY HUGO DIXON

WEST GERMANY, France and the Netherlands will be the beneficiaries of a single European Community market in telecommunications equipment in 1992, according to a report to be published next week. The trade performance of the UK and Italy, by contrast, will continue to be poor.

The report, by Telecommunications Industry Research, shows that the EC had a deficit of Ecu 400m (£265m) in telecommunications trade with the rest of the world last year. This compares with a surplus of Ecu 100m in 1986.

Japan was the main beneficiary of the deterioration in the EC's trade position, with exports worth Ecu 488m, up from Ecu 300m in 1986. EC telecommunications exports to Japan were only Ecu 10m last year.

The UK saw its deficit in internal EC trade increase to Ecu 78m last year, up from Ecu 65m. The continuing deficit was the result mainly of UK manufacturers' failure to sell high value items such as telecommunications switches, TIR said, although the greater openness of the UK market was also a factor.

"There is little chance of British telecommunications companies cracking the 1992 market in a big way," Mr Jack Stockdale, TIR's research director, said.

Italy's deficit in EC telecommnnications trade has increased even faster, to Ecu 79m from Ecu 41m in 1986. West Germany, the Netherlands and France posted surpluses of Ecu 206m, Ecu 42m and Ecu 38m respectively.

EEC Telecommunications Market Outlook, TIR, 4/5 The Square, Bornham, West Sussex, PO22 OHB, £225.

EC expatriates may gain vote in local elections

BY DAVID BUCHAN IN BRUSSELS

MORE THAN 4m disenfranchised EC expatriates who come from one Community country but live in another would be able to vote in municipal elections where they live, under a proposal approved by the *EC Commission* yesterday.

The draft directive, which must be approved by EC governments, is likely to pit southern member states, traditionally an area of net emigration inside the Community, against northern member states, a net immigration region.

The Commission says the proposal would fulfill a commitment to creating a Citizens' Europe, that EC expatriates deserve rights as well as duties where they live and that it leaves alone the more touchy issue of foreign votes in national elections.

A maximum period of residence – equal to a single term in office for the municipal council concerned – would be set for EC expatriates to be eligible to vote in local elections.

Denmark, Ireland and the *Netherlands* should have little difficulty with the new Commission proposal, given that they already allow all foreigners, not just EC Citizens, to vote in their local elections. The UK only gives Irish and Commonwealth citizens such a right.

Numerically, Luxembourg would face by far the biggest problem. Nearly a quarter of its 89,000 population is foreign, and of this quarter 92.7 per cent are EC citizens. Because of this, the Commission suggests special arrangments should be made for any state where the expatriate community exceeds 20 per cent of *the total population.*

France backs plans for EC takeover controls

BY WILLIAM DAWKINS IN LUXEMBOURG

FRANCE yesterday backed controversial plans for European Community-wide merger controls, leaving Britain as the only member state opposing the scheme.

Mrs Edith Cresson, French *European Affairs Minister, told* her Community counterparts that Paris had no objection in principle to EC competition laws on cross-border mergers taking precedence over national anti-monopoly legislation.

This change of tack by a previously undecided French Government should help the Commission's campaign to revive the proposal, redrafted last March after being deadlocked for 15 years. Yet the future of the scheme was still uncertain yesterday.

"There has been a greater understanding than in the past," *said* Mr *Peter* Sutherland, *the* European Commissioner for competition, who was nevertheless unable to say when the scheme might win clearance, for which it needs ministers' unanimous support. Member states agreed to send the plan back to national experts for more discussion, which means it is unlikely to come before ministers until the next internal market council in September.

The plan would enable Brus*sels* to veto cross-frontier mergers in advance and ask for changes if they are likely to distort competition. The present rules only provide the right to step in after the event. Despite broadly supporting the proposals, France thinks the Ecu 1bn combined turnover at which mergers must apply for Commission clearance is too low and wants provisions to make it clear that mergers will not be scrutinised on grounds of size alone.

Britain is reserving judgement, though *it told* the *Commission* yesterday it could not allow EC anti-trust law to take precedence *over national monopoly regula*tions. Mr Francis Maude, junior minister for corporate affairs, said: "We have grave anxieties ahont a European mergers regime over-riding national competition controls."

EC accepts work restriction on professions

By William Dawkins in Luxembourg

THE European Commission yesterday bowed to pressure from member states to build restrictions into plans to give professionals the freedom to work across the EC.

The concession meant, however, that member states were able to give unanimous support for the scheme, clearing the way for it to come into effect some time in 1991.

Even in its slightly softened version, the scheme is still one of the most important extensions of individuals' rights in the EC's drive for a single market in 1992.

Lord Cockfield, the Commissioner responsible for the proposal, grudgingly accepted demands from Community trade and industry ministers to be allowed to force members of *legally related* professions, like accountants and patent agents, to take aptitude tests if they want to work in another Community country.

It means that all holders of professional diplomas will no longer have to qualify in full in other EC countries to practise there, a right already granted under other legislation to a limited number of activities.

Member states must in theory recognise each others' professional qualifications, though they do have the right to ask incoming professionals to practise for up to three years under national authorities' supervision.

Hungarian leader replaces Kadar's men

BY LESLIE COLITT IN BUDAPEST

MR KAROLY GROSZ, the new Hungarian party leader, has begun to sweep out of office senior officials who were close associates of his predecessor, Mr Janos Kadar.

Mr Sandor Gaspar, the long-serving head of the Hungarian trade union federation, was relieved of his post and replaced by Mr Sandor Nagy, a union official.

When Mr Grosz came to power last month, the elderly Mr Gaspar lost his post in the ruling Politburo. He was not regarded as a credible representative of workers' views at a time when the party was calling on Hungarians to tighten their belts and to shift into more productive jobs. Mr Gaspar's deputy, Mr Tibor Baranyai, was also sent into retirement.

The reshuffle of senior officials will pick up momentum on June 29 at a meeting of the Hungarian parliament. Hungarian officials say Mr Karoly Nemeth, the Hungarian President, is scheduled to be replaced by Mr Bruno Straub, a scientist who, interestingly, is not a member of the Communist Party.

Mr Nemeth was a long-time associate of Mr Kadar and a less than ardent snpporter of economic and political reforms. The largely ceremonial post of president, however, is expected to be eliminated altogether in 1990, when the Presidential Council is abolished

Mr Imre Pozsgay, who was promoted to the Politburo last month, is to be replaced next week as head of the Patriotic People's Front (PPF) by Mr Istvan Huszar, a senior party official. As president of the PPF, an organisation to rally non-party citizens, Mr Pozsgay was a driving force for the liberalisation of Hungary's political institutions.

In yet another high-leval change, Mr Ferenc Havasi, the key party leader of Budapest, is likely to be replaced by Mr Pal Ivanyi. Although Mr Havasi was one of the most reform-minded aides to Mr Kadar, he was tainted with co-responsibility for the previous leadership's lack of economic success.

Several important government changes on the ministerial level are also expected to be announced shortly.

Moscow establishes working contacts with the IMF

BY LESLIE COLITT IN BUDAPEST

MR VIKTOR G Komplektov, Soviet Deputy Foreign Minister, told the FT Conference on Doing Business with Eastern Europe that Moscow had established "working contacts" with the International Monetary Fund (IMF) and the World Bank in Washington.

These contacts were to be continued later this year and were an example, along with Moscow's "more or less" regular dialogue with the Bank for International Settlements of the Soviet Union's more active relations with international financial institutions. This in turn was a result of the restructuring *(perestroika)* of the nation's foreign economic ties.

Prof Jozef Pajestka, Director of the Polish Institute of Economic Sciences, *said that in the case of* Poland the pessimistic forecasts of its growth rate could only be overcome in the long run by techoological change. But for this to happen a "new policy orientation" was required. Official Polish policy he said appeared ready to embark upon this line. Prof Pajestka noted that for the Government to enforce a harsh policy of further sacrifices on the popnlation would imply withdrawal from a policy of democratisation and political reforms.

Dr Anders Aslund, Resident Scholar of the Kennan Institute for Advanced Russian Studies in Washington, posed the question of whether economic reforms in the Soviet Union and Eastern Europe would lead to efficient economies. Citing the example of Hungary, be noted that although the 20 year reform programme had led to a myriad of improvements over the old central planning system, efficiency had not greatly increased.

He concluded that "marketisation" had not gone far enough and, by itself, was insufficient. The nature of ownership had to change while the "all intrusive" power of the state and party had to be contained. In addition hard budget constraints needed to be introduced to allow companies to

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go bankrupt. Trading in company shares had to *develop* – they are to begin shortly in Hungary – along with strong restrictions on political intervention in the economy.

Mr Gilbert Nockles, Trade Finance Director of Midland Bank outlined some of the issues Western bankers faced in financing business with the Socialist countries. They included: ensuring thet adequate means exist for the Western partner to get foreign exchange for joint venture earnings; the feasibility of repatriating investment in the event of dissolution; availability of guarantees from the joint venture company and partners to support foreign bank finance; political and country risk considerations and the possible role of export credit agencies and the commercial insurance market.

Dr Sergei M Plekhanov, Deputy Director of the Institute of US and Canadian Studies in Moscow, said the only way to bridge the gap between what an *advanced* socialist society should be like and the actual condition of Soviet socialism was to liberate the enormous creative potential of the Soviet people. This was what *perestroika* was about, he said. "In the beginning of *perestroika* was the word: *glasnost* (openness)," he noted.

Mr Alexander Minlaev, Managing Director of Garant Insurance Company based in Vienna, said his company offered full coverage for the export risk of deliveries into Eastern Europe through non-payment and manufacturing risk insurance. Although the creditworthiness of Eastern commercial organisations was "never in doubt" he said, no company in the West or foreign trade organisation in the East could exclude errors, wrong decisions or "unfortunate economic developments" which could cause delayed or temporary non-payment.

In a forum on Changing Eastern Europe and the Impact of Developments on the West, Mr Paul Lendvai, Director of Radio Austria International, said it was often forgotten that the real influence of the West on East European developments was extremely limited. Internal political, institutional and personal factors were the main determinants. While the West *could* promote and assist positive developments in the direction of a market economy it could not "buy off Communism." Mr Lendvai said that by this he meant hoping for or even demanding changes in the power relationships, ownership structure and political decision making in exchange for credits and technology.

Mr Lendvai cautioned that Western businessmen must start from the premise that changes in Eastern Europe were "always reversible, at any rate as long as a one party system exists." One of the main lessons of the ups and downs in East European history was, Mr Lendvai said, that the "hard liners of yesterday can become the reformers of today and vice versa."

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US manufacturing boom shows signs of slowdown

BY ANTHONY HARRIS IN WASHINGTON

US DURABLE goods orders declined by 2.2 per cent in May, after rising by 1 revised 1.8 per cent in April, and order books rose by only 0.1 per cent, bringing a 14-month old rising trend to a standstill, according the the advance report of the Commerce Department yesterday. Shipments, on the other hand, rose sharply by 1.5 per cent in the month, following a 0.9 per cent decline in April.

These tentative signs that the US manufacturing boom may be slowing down to a more sustainable pace helped to support the bullish sentiment in the bond market yesterday, but analysts argued that the figures were too heavily influence by special factors to give a reliable indication of the trend. The continued strength of orders in the primary metals sector, especially steel, was seen as a sign of continued high activity, and some inflationary speculation.

Two thirds of the May decline were in defence goods, and there was also a sharp fall in reported orders for aircraft; it appears that a large order announced by Boeing in May was too late to be included in the official numbers.

Unfilled orders for transport equipment fell by 0.4 per cent on the month, but still stand 13.5 per cent higher than a year ago, well above the sectoral rise of 10.1 per cent.

The Department of Defence was operating a virtual freeze on new orders during part of the period covered, when projections showad procurement running some $3bn over budget, though this has subsequently been somewhat relaxed.

The primary metals sector, which is operating at full capacity, achieved e 2 per cent rise in shipment in May, reversing a 1.5 per cent fall in April, which may largely reflect hardening prices.

New orders rose by 5.5 per cent in the month, and order books now stand 25.8 per cent higher than a year ago.

Chief prosecutor in Pentagon scandal set to brief Congress

BY LIONEL BARBER, IN WASHINGTON

THE CHIEF prosecutor in the Pentagon bribery scandal was set to brief Congress yesterday on his two-year investigation covering senior civil servants and some of the largest US defence contractors.

Mr Henry Hudson, US Attorney in Virginia, working closely with the FBI and US Justice Department, is said to be seeking more than 100 indictments. Some members of the House of Representatives have been mentioned as targets of the Federal investigation, but Mr Jim Wright, House Speaker, dismissed these reports as rumours started by the Reagan Administration.

The scandal, which has gripped Washington as much as the Iran-Contra arms-for-hostages affair last year, promises to run well into the presidential election campaign.

Mr Pat Buchanan, the conservative commentator and former White House official, said it could jeopardise President Reagan's great achievement: rearmament. Writing in the Washington Times, he said: "To allow the left to use this scandal to discredit and destroy what has been built would be to allow our adversaries to convert foolish crimes into a national tragedy. We let that happen to the CIA and FBI; America can't afford a repetition of thet folly."

President Reagan, appearing at a news conference at the end of the Toronto summit on Tuesday, took a more relaxed view, describing frand in Pentagon purchasing as "understandable". He said he was "disappointed and upset" but added that the Administration should take the credit for uncovering the scandal.

Investigators are focusing on senior Pentagon officials and defence contractors who, using private defence consultants as go-betweens, trafficked in classified information on bids and contracts for weapons systems.

Federal investigators have indicated that their probe has implicated up to 20 Pentagon officials, 15 defence companies and a number of private consultants.

During the Administration's military build-up, Congress increased its involvement in procurement decisions. One reason was that Mr Caspar Weinberger, as Defence Secretary, rontinely refused to negotiate with Congress on budget cuts.

Mr Weinberger's intransigeance put the onus on Congress to reconcile the differences between his budget request and what the legislature was prepared to yield. This encouraged congressional committees to manage the budget, one House aide said.

Two nuclear weapons tested in Nevada

TWO NUCLEAR weapons were detonated simultaneously beneath the Nevada desert yesterday morning in an experiment carried out only a few times in 43 years of nuclear testing, AP reports from Yuccu Flat, Nevada.

The test was conducted 64km from the town of Mercury, where 33 Soviet nuclear scientists are preparing for a historic series of joint nuclear experiments later this summer.

The devices were detonated in a 228m vertical shaft drilled in Yucca Flat, about 136km northwest of Las Vegas.

US Energy Department spokesman Mr Jim Boyer said he felt "very, very slight motion" at a control point 27km away.

The National Earthquake Information Center in Colorado measured the magnitude of the explosion at 3.1 on the Richter scale. A earthquake of magnitude 3.5 can cause slight damage.

Thatcher hails 'East-West era of hope'

By David Owen in Ottawa

MRS Margaret Thatcher, the UK Prime Minister, yesterday took the opportunity afforded by a speech to the Canadian parliament to hail an era of "unprecedented hope and opportunity" in East-West relations but to warn against a premature relaxing of the West's guard.

Praising Soviet leader Mr Mikhail Gorbachev for his role in the recent Moscow Summit with President Reagan, Mrs Thatcher nonetheless asserted that Soviet military spending continued to grow. "There is still little evidence that the Soviet Union's long-term foreign policy objectives have changed," she said.

Mrs Thatcher cited the agreemant to reduce Intermediate Nuclear Forces and the Soviet withdrawal from Afghanistan as the first tangible rewards of the West's resolve to defend itself regardless of cost. She also landed Nato for its success in keeping the peace for nearly 40 years.

In a wide-ranging, hard-hitting and occasionally humorous address, Mrs Thatcher managed to resist all but the most fleeting reference to nuclear-propelled submarines. Britain is in heated competition with France for a C$8bn contract to supply Canada with a design for 10 or 12 such vessels.

She was widely expected to make a more vigorons sales pitch, however, during lunch with Canadian Prime Minister Brian Mulroney at his Sussex Drive residence.

Mrs Thatcher also spoke positively of progress made at the recent Group of Seven political and economic summit in Toronto. "Among the economic summit seven countries, sound money, lower taxes and freedom of enterprise are now in common form," she said. "We have established a new orthodoxy."

She acknowledged problems, however, in the field of agriculture and bemoaned the current situtation " in which countries compete with each other to give bigger and bigger subsidies".

The address, which took in references to the charge of the Light Brigade and to Mr Eddie Edwards, the British ski jumper, was frequently interrupted by bursts of applause from the Canadian Conservative benches.

BRAZIL DEBT DEAL WITHIN SIGHT

Creditor banks tackle final hurdles

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

AN AGREEMENT between Brazil and its 14 leading creditor banks appeared yesterday to be only hours away. With no points apparently at issue between the banks, led by Citicorp, and Brazil, the banks had only to sort out differences among themselves before the proposed deal was cut.

The one remaining issue was the Japanese banks' objection to a moving forward of the date at which a snapshot was taken to calculate the amount of new money owed by the various banks. The proposal calls for that date to be set in March 1987, instead of the December 1982 used in previous deals.

The Japanese banks object to this proposal because, for tax and accounting reasons, they have sold off less of their loans than other banks, particularly those in the US. The other banks argue that, as the main holders of the debt, the Japanese will be the main beneficiaries of a resumption of interest payments which will ensue from the package.

However, as one banker put it yesterday, "the Japanese are not deal-breakers", and the expectation was that it would be only a matter of time before the deadlock was broken. The accord, talks about which were started in January, must then be sold to the country's more than 700 creditor banks, a task of significant proportions.

The agreement includes:

● Rescheduling of $62bn of bank debt over 20 years, with an eight-year grace period, at an interest rate margin of ⅞ percentage points over money market rates. This compares to a current average margin of about 1.7 percentage points.

● Provision of $5.2bn in new money to be repaid over 12 years with a five-year grace period. Disbursement will be in three parts, $4bn to be released when the International Monetary Fund executive board gives the go-ahead, expected in late-July or early-August, to a $1.5bn standby loan agreement.

The next instalment of $600m is scheduled for the end of the year and the last instalment for the first quarter of next year. The second tranche is paid upon the presenting of an IMF report on the economy, while the third tranche will be paid only if the country has drawn down its IMF standby – in other words, if it has met economic targets. There is a provision for the third instalment to be paid without the drawdown, if 85 per cent of the banks agree to a waiver.

● In the words of Citicorp's chief negotiator, Mr William Rhodes, this is "the most extensive and innovative menu of proposals" yet included in a rescheduling package. There will be exit bonds and various debt-to-equity packages, including one which gives special treatment to banks lending new money. Exit bonds for those banks not wishing to participate in further new money calls will carry a 6 per cent interest rate, compared with the 4 per cent paid on the unpopular exit bonds in the last agreement with Argentina.

● According to officials in Brazil, there are also provisions under which Brazil will be able to buy back its own debt in the secondary market, although the immediate relevance of this will be limited until Brazil's foreign exchange reserves expand.

The last difficulty between the banks and the Brazilians was the question of whether Brazilian assets could be seized in the event of a default on its debt. According to bankers, a compromise was wrought under which the Brazilian commercial assets would be seizable, but not other assets. This compromise would protect central bank reserves abroad but offer, bankers believe, some disincentive to default.

Bankers said an interim loan agreed by the banks late last year would probably be extended pending full agreement of the proposed accord.

President Miguel de la Madrid of Mexico yesterday ruled out a moratorium on the country's $103bn foreign debt, in answer to rumours that Mexico would reduce debt service unilaterally. "I have not wanted, nor do I want, to expose Mexico to problems I know I cannot resolve," he said.

Yeutter hails Japan farm deal

BY ANTHONY HARRIS

MR CLAYTON YEUTTER, the US Trade Representative, yesterday described the US-Japanese agreement on beef and citrus products as marking a "fundamental change" in Japanese attitudes, and could leave the EC "looking like the villains of the agricultural world."

He said that the US would continue to press its demand for the removal of all agricultural trade barriers within 10 years despite the deadlock at the Toronto summit.

"We are not willing to concede that it is politically impossible for Western Europe – or anyone else – to phase out trade distortion in 10 years" he said in a Washington briefing on the agreement. "It ought to be faster."

He conceded, however, that it would have been politically impossible for the Japanese to meet the original US demand for immediate removal of the beef and citrus quotas, which was simply a US negotiating tactic.

The agreement, which leaves Japanese farmers with an initial 70 per cent protective tariff to ease the adjustment to open trade represented the fastest realistic adjustment possible, he said, though the US was disappointed that no progress had been made on Japanese protection of its rice industry.

Given readiness of the Japanese to accept their international responsibilities as a major economic power, he hoped that the EC negotiators would be "somewhat more accommodating than they have been in the past" in the next round of global trade talks, to be held in Montreal in December.

Ford in car safety promise

FORD MOTOR Co. will make passenger and driver-side air bags standard equipment on 1989 Lincoln Continentals, the company said yesterday, AP reports from Washington.

The move will make Ford the first US car maker and the second in the world to offer the dual bag system, said Ford.

Chile cuts VAT to 16%

BY MARY SPOONER IN SANTIAGO

THE CHILEAN authorities have reduced the country's value added tax (VAT) from 20 per cent to 16 per cent.

The measure, announced by General Augusto Pinochet at the weekend and approved by the military junta on Tuesday, sparked immediate criticism from opposition political groups charging that the move was designed to strengthen support for the Government in the one-man presidential plebiscite scheduled for later this year.

Chile's 20 per cent VAT, established in 1975, was one of the highest in the world, ranking only behind Nigeria, Ireland and Denmark.

Canadians expel eight Soviets

By Robert Gibbens in Montreal

THE CANADIAN Government has expelled eight Soviet diplomats for "improper and unacceptable behaviour."

Another nine who had completed their tours of duty within the past six months have been told not to return to Canada.

The Soviet officials were accused of being engaged in commercial, industrial and scientific espionage and some military espionage.

Seven of the eight officials expelled were asked to leave just before the Toronto economic summit opened last Sunday and have already left for the Soviet Union.

Two of the eight were from the Soviet embassy in Ottawa and six from the Montreal consulate, which for long has been known as a base for espionage activity in North America.

Mr Joe Clark, External Affairs Minister, was due to make a statement later in the House

Western help for Third World fell last year

BY GEORGE GRAHAM IN PARIS

WESTERN leaders have some ground to make up if they are to bring their deeds into line with their promises to the developing world at the Toronto summit.

The seven leading industrial nations may have promised to help the poorest Third World countries by writing off some of their debts, but figures published yesterday by the Organisation for Economic Co-operation and Development revealed that they had in fact reduced their aid to the Third World last year.

The Development Assistance Committee of the Paris-based OECD, which groups 18 of the leading industrialised nations, said that member countries had given $41bn of aid to the developing world last year, 2 per cent less in real terms than the previous year.

Total aid to the Third World dropped to 0.34 per cent of gross domestic product in DAC member countries, compared with 0.35 per cent in 1986.

This leaves the industrialised nations a long way short of the target of 0.7 per cent of GDP fixed by the United Nations nearly 20 years ago and solemnly reaffirmed at last year's economic summit in Venice.

Only four countries reach this target aid level: Norway (1.1 per cent), the Netherlands (0.98 per cent), Denmark (0.88 per cent) and Sweden (0.85 per cent). Two further countries, France and Finland, just break the barrier of 0.5 per cent.

Much of the decline in aid stems from the US, the UK and West Germany, all of which cut their aid effort as a percentage of GDP.

The UK's aid disbursements fell by 2.8 per cent in sterling terms and by 7 per cent in volume, reaching $1.887bn. British aid slipped to 0.28 per cent of GDP from 0.31 per cent in 1986, dropping behind Switzerland and Japan.

The US remained the second least generous industrialised nation, ahead only of Austria, with aid falling to 0.2 per cent of GDP from 0.23 per cent in 1986. US aid fell 8.2 per cent to $8.776bn in national currency terms, a drop of 10.9 per cent in volume.

Smaller industrialised countries such as Australia, New Zealand, Austria and Ireland made even sharper cuts in their aid efforts, often to meet overall budget cutback targets.

Overall net resource flows to developing countries, however, showed an increase for the first time since 1981, rising from $82bn in 1986 to $84bn in 1987 – or $91bn if South Korea's massive prepayments of its bank debt are excluded.

Net bank lending to developing nations recovered by 35 per cent in volume terms, and direct investment also recovered. Bond lending fell sharply, thanks to a drop in new issues and heavy repayments by Mexico and Argentina, to constitute a net outflow of $3bn.

British aid at all-time low

BY MICHAEL HOLMAN

BRITAIN'S overseas aid as a percentage of gross national product has fallen to its lowest level since records began in 1960, according to an analysis by the World Development Movement of yesterday's OECD aid figures.

Mr John Mitchell, director of the London-based organisation which campaigns for changes in British assistance to poor countries, noted the UK percentage, at 0.28 per cent last year, was a marked fall from 0.31 per cent in 1986 and 0.52 per cent in 1979, the year in which Mrs Thatcher took office.

According to WDM, the highest aid level as a percentage of GNP was achieved in 1961 at 0.59 per cent, when Harold Macmillan was prime minister.

Britain had dropped last year to 14th place among 18 aid givers covered by the report, compared to 12th in 1986 and sixth in 1979.

"Britain's declining aid performance is in sharp conflict with government's commitments at the London, Bonn and Tokyo economic summits to maintain and where possible increase aid," said Mr Mitchell.

Nicholas Woodsworth, recently in Lagos, reports on how inflation is undermining a restructuring plan

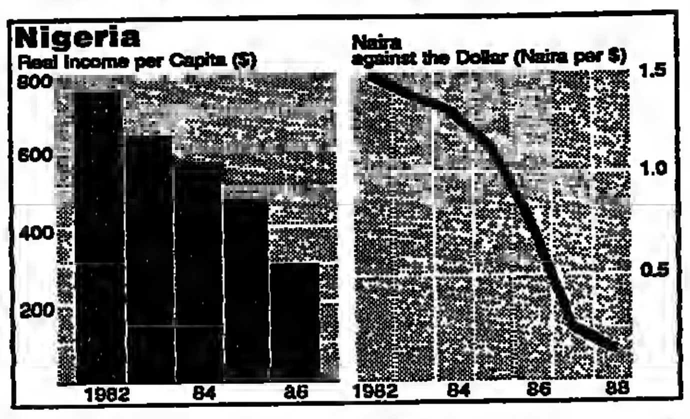
Hard times bring uncomfortable choices for Nigeria

IN A living room in a middle-class suburb of Lagos, two men sit drinking scotch in the dark. It is the third power cut of the week. The air conditioner has stopped and the ice cubes have melted. Although the building is equipped with an emergency generator, it has long ceased functioning and there are no spare parts available to repair it. The night air is still and humid. After a long evening of whisky and discussion, the mood is one of sad disillusion.

Like many upper-middle-class Nigerians, both of these young men have been educated in the West. One is a hospital director, the other a doctor in a Lagos clinic. Although they know and value comfort, money is not their greatest concern – they are bright, dedicated to medicine, and wish to make the most of an education which has given them certain material and moral expectations.

Since returning to Nigeria few of those expectations have been satisfied. Although they work long hours, neither can afford a car, an overseas holiday, or many imported consumer items. Disheartened by the cynicism and corruption of older colleagues, and unable to attain the living standards they would like without going the way of these colleagues, they are making plans for a permanent return to Europe.

Inflation means that staples take a growing slice of incomes



Six miles away across the darkened city, in a dilapidated office building on the edge of working-class Surulere, a small group of men are grappling with a different but related problem.

They are the executive committee of the Medical and Health Workers Union of Nigeria. Their discontent is more elementary in nature. The workers they represent – nurses, orderlies, and clerical staff – are no longer able to satisfy even basic needs on their present salaries.

Sky-rocketing prices have now put minimum standards of nutrition, shelter, and clothing well beyond their reach. Merely buying cassava, a basic Nigerian staple which has risen 425 per cent in in price in the last year, has become for many of them an insuperable problem.

For those who live on the outskirts of Lagos, simply travelling to and from work on public transport takes a third of their salaries. For people like these there is no whisky and no escape route to Europe. Their sole alternative lies in changing things at home.

All over Nigeria, in every sector of the economy, public and private, rural and urban, in the working worlds of banking, insurance, the petroleum industry, communications and transport, manufacturing, and commerce, difficult choices like these are confronting middle-class professionals and working people. Gone are prosperous days and carefree attitudes of Nigeria's oil boom period – in their place is an alarming world of steeply rising prices, spiralling inflation, and a growing rift between the Government and the people of Nigeria.

After a fortnight last April during which the country was paralysed by a series of protest labour strikes, the Government and the nation's well-developed trade union movement have maintained an uneasy state of truce.

The issue at stake was nominally a six per cent rise in the pump price of petrol. The real and continuing issue, however, runs far deeper than that. Popular dissatisfaction is aimed at a wide range of economic policies being pursued by the Government under its ambitious structural adjustment programme (SAP).

The dispute was the most serious challenge to Government since President Ibrahim Babangida took power in a military coup in August 1985. But the price of peace may prove to be the programme itself, started amid great optimism in mid-1986.

When the President's military Government set the programme running it was regarded with great optimism. As a remedy for a stagnant economy based on an overvalued currency and exports of a single commodity, oil, it was endorsed by the IMF, the World Bank, and Nigeria's main trading partners, all of whom were anxious to see Nigeria address its external debt, currently $26bn. Although Nigeria for political reasons finally rejected an IMF standby loan, its adjustment programme was at least as rigorous as those sponsored elsewhere by the Fund.

Nigeria devalued its uncompetitive naira by 66 per cent, abolished a corrupt import licence system and dismantled its ineffective agricultural commodity boards. It abolished import, exchange, and price controls, deregulated the banking sector and started the commercialisation or privatisation of some 90 inefficient parastatal organisations.

By adopting measures to stimulate exports, develop international trade, encourage foreign investment, and promote import substitution in the food and manufacturing sectors, Nigeria and its foreign backers hoped to see high rates of productivity and growth.

Structural adjustment is a medium- to long-term process. Only in isolated sectors, such as agricultural production, are its tangible benefits beginning to show. The short term costs of SAP, however, have affected the Nigerian people across the board, and reaction to it now places its ultimate success in question. Aspects of the Nigerian economy which threaten SAP's survival include:

● a fall in real income in 1985 Nigeria's per capita GNP stood at $760, twice as high as the sub-Saharan average. Last year it was reported to below $400. The World Bank estimates that this year the figure will stand at $285.

● spiralling inflation. Naira devaluation and its effect on the price of imported goods, combined with a 1988 reflationary budget, has contributed to an inflation rate currently approaching 20 per cent.

● pressure on the foreign exchange auction system. Unsatisfied demands for hard currency for import purposes have created a growing imbalance between Nigeria's two foreign exchange windows, the foreign exchange market (FEM), and the inter-banking or "autonomous" market.

While the Central Bank has held the rate on the FEM, the naira on the autonomous market has rapidly depreciated through increased demand by recently commercialised parastatal organisations. This has produced a spread between the two markets of more than 30 per cent. While the FEM exchange rate is currently 5 to the dollar, some bankers are predicting an effective exchange rate of 10 naira to the dollar before the end of the year.

All these factors militate against Nigeria closing the gap on its budget deficit, a crucial element in the successful negotiation of upcoming talks with the IMF. Contingent upon continuing IMF endorsement of SAP are vital debt rescheduling agreements and various lines of credit from the World Bank, the London Club, the African Development Bank, Japan, and export credit agencies estimated at between $1.5bn and $2bn.

Caught between the conflicting demands of SAP and the Nigerian people, the Government has little room for manoeuvre. It is likely to present the IMF with a marginally revised budget and attempt to push through unpopular price increases in gradual stages.

Whether or not the increasing austerity of SAP policies will continue to be accepted by the population is uncertain. There is now a widespread perception that the heavy cost of SAP is being born by the poorest sections of the urban and rural populations. While Government information campaigns have on the whole failed to convince most Nigerians of the necessity of SAP, the people in the street are painfully aware that austerity is not being practised by many of those asking him to tighten his belt. President Babangida's personal reputation remains high; that of his government is declining.

In current talks over labour demands, union leaders are determined that concessions will be wrested from the Government. They are seeking higher wages, government control of inflation, subsidies on basic commodities, and minimum guarantees in the provision of housing and social services.

"Spending in such areas as defence and prestige projects is wasteful and unnecessary – financial allocations and government priorities must be changed," said Mr J N Asen, Deputy General Secretary of the Medical and Health Worker's Union of Nigeria. "We respect the spirit of SAP, but we are no longer able to feed ourselves. Must agreement with the IMF be concluded over the bodies of dead Nigerians?"

It is now conceded by most multilateral aid institutions in Nigeria that the programme has been too ambitious, that the West has expected too much of it in too short a time.

On the other hand, western bankers and diplomats have become increasingly concerned by what they see as a weakened government commitment to the programme.

Caught between widespread resentment over austerity, and the need to reach an agreement with the Fund, the Government has little room for manoeuvre. With its likely presentation of a marginally revised 1988 budget and its attempt to push through unpopular price increases in gradual stages, it may all prove to be a difficult balancing act for President Babangida.

Further debt servicing problems may emerge

BY MICHAEL HOLMAN, AFRICA EDITOR, IN LONDON

FURTHER evidence of Nigeria's difficulties in servicing its estimated $27bn external debt is likely to emerge in London on Monday during a scheduled meeting with its commercial bank creditors.

A delegation of senior officials from the Ministry of Finance and the country's central bank is expected to ask the London Club of commercial bank creditors for another 90-day roll-over of repayments of $1.2bn on loans falling due in 1988 and 1989. This would extend an agreement reached at a meeting last March.

The Nigerian delegation is also expected to ask for a further postponement of service payments on $2.35bn in letters of credit, the subject of a rescheduling agreement signed with the banks last November.

Bankers involved in the talks say they expect the requests to be granted, but there is a growing concern about Nigeria's failure to reach an agreement with the International Monetary Fund on economic policy.

At the meeting with the commercial banks last March, Dr Chu Okongwu, Nigeria's Finance Minister, said that the country's "overall balance of payments position is expected to be in deficit to the tune of $3.7bn in 1988 and $3.3bn in 1989, making debt service extremely difficult.

"Debt service is estimated at $5bn and $4.7bn, or about 80 per cent and 66 per cent of total export earnings on goods and services in 1988 and 1989 respectively. Debt service ratios of this magnitude are definitely unsustainable," Dr Okongwu said.

He asked the bankers to reschedule debt maturing from January 1988 through December 1991, amounting to $1.2bn, over 25 years with a 10-year grace period. The proposal was rejected as unrealistic, but it is not known whether new terms will be put forward.

The minister also requested the rescheduling, on the same terms, of last November's refinancing agreement of the letters of credit. "To ask for rescheduling of an arrangement that was less than six months old took our breath away," said one banker.

Sri Lanka aims for $500m aid

By Mervyn de Silva in Colombo

SRI LANKA hopes to obtain about $500m in aid from the World Bank-sponsored consortium when the island's 18 donors and multi-lateral agencies meet in Paris in a week's time, Mr N.H.M. Naina Marrikar, the Finance Minister said.

The World Bank's report on Sri Lanka and the Government's public investment programme for the next five years will also be discussed.

Mr Marikkar will tell the donors that the Government plans to reduce inflation from 13 per cent this year to 5 per cent by 1990, and the debt service ratio, now at 28 per cent to 17 per cent by 1992.

Sri Lanka's growth rate has dropped 1 percentage point from 5 per cent in 1986-87, largely due to the Tamil revolt, violence in the south and severe drought.

In December the World Bank sponsored a special meeting of donors to raise funds for a rehabilitation and recovery programme in the insurgency-hit north and east.

'Modest success' for UK delegation to Tehran

BY ANDREW GOWERS, MIDDLE EAST EDITOR, IN LONDON

A FOUR-MAN British parliamentary delegation which visited Iran this week called on the British Government yesterday to re-establish a diplomatic presence in Tehran in an effort to improve Anglo-Iranian relations.

The all-party group of parliamentarians, the first British delegation of its kind to visit Tehran since the 1979 Iranian revolution, pronounced its trip a modest success. But members stressed that they had not been in Iran to negotiate and revealed that they had received no concrete information about three British hostages held by pro-Iranian kidnappers in Lebanon.

There was also no discussion of a timetable for their release, although the Members of Parliament stressed they repeatedly raised the hostage issue, as well as the two British prisoners in jail in Iran, and were given the impression that the British Beirut captives – Mr Terry Waite, Mr John McCarthy and Mr Brian Keenan – were still alive. Mr Tom Clarke, Labour, expressed the hope that the Government might be ready to negotiate for the hostages' release "in time".

Mr Cyril Townsend, one of two Conservative MPs in the party, said: "We set ourselves limited objectives and I personally think they have been achieved."

The MPs' visit resulted from an initiative by the Archbishop of Canterbury, Dr Robert Runcie, who hopes that an improvement in Anglo-Iranian relations will bring closer the release of the Beirut hostages.

It was seen as significant because it coincided with other signs of a thaw between London and Tehran, following the resumption of negotiations on compensation for damage to each other's embassies after the revolution.

For their part, Iranian officials used the visit to press Britain to take a more neutral stance over the Gulf war. They reiterated an old promise to help with the release of British hostages in exchange for British help with Iranian captives in Lebanon. The latter are widely believed to be dead.

Deal near on Mozambique power sales to S Africa

By Diana Smith in Lisbon

AGREEMENT in principle was reached in Lisbon yesterday on the rate South Africa will pay for electricity from the Cahora Bassa dam on the Zambezi River in Mozambique.

If implemented the agreement will strengthen economic links between South Africa and Mozambique, as well as improve political relations between the two countries. For its part Portugal will be relieved of a financial burden it has carried for 15 years.

There are now only few details to be thrashed out before final agreement on resumption of power supply by sub-Saharan Africa's largest dam is reached.

The dam was built by the former Portuguese regime in the early 1970's when Mozambique was a colony, with German and South African financing. It is 80 per cent owned by Portugal.

The project has not fulfilled its purpose of supplying 6 per cent of South Africa's electricity needs. The rebel Mozambique National Resistance, which has had covert South African support, has systematically sabotaged many of the 540 pylons that carry power lines over 550 miles from the dam to South Africa.

A non-aggression pact signed in 1984 between South Africa and Mozambique failed to end Pretoria's support for the rebels although there have been indications recently that assistance may be ending.

Since 1984 Portugal has pressed for an end to the $56m annual losses of Hidroelectrica de Cahora Bassa. At present its debt totals $1.2bn, reluctantly serviced by the Portuguese Government.

Tough bargaining has occurred this year between Portugal, Mozambique and South African representatives and the Lisbon meeting brought a final solution considerably closer.

South African's willingness to pay a higher tariff – 1.76 South African cents (0.33p) rather than the 1.1 cents agreed in 1984, satisfies the Portuguese that they can start repaying Cahora Bassa debts once power again flows from the dam. The meeting affirmed that the $75m cost of rehabilitating power lines will be borne by Mozambique and South Africa.

Ghana credit

THE World Bank is giving Ghana a $40m interest-free credit to rehabilitate its mining industry, the bank's said yesterday, AP writes from Accra. Mr Seung H. Choi said $36m would go to the State Gold Mining Corporation and the rest to state-owned Ghana Consolidated Mining and Ghana National Manganese.

Five held over Fiji arms

FIVE MEN, including a Canadian lawyer based in New Zealand, were detained yesterday for questioning in connection with the recent discovery of Soviet-made arms in the country, AP reports from Fiji.

Those arrested included Christopher Harder, an Auckland-based Canadian barrister, Tevita Fa, a local solicitor, and Som Prakash, an English lecturer at the University of the South Pacific in the capital, Suva.

An Indian businessman and his son were also taken in for questioning.

There has been widespread unrest among the majority Indian population of the South Pacific Island nation following last year's coups.

Japan dips toe in Mid-east

JAPAN yesterday gingerly entered the treacherous waters of the Arab-Israeli conflict, as Mr Sousuke Uno, the Foreign Minister, arrived in Damascus at the start of a tour of the main confrontation states, Andrew Whitley writes from Jerusalem.

From Syria, Mr Uno goes on to Jordan and Egypt, before arriving in Israel on Sunday. It will be the first time that a Japanese Cabinet Minister has paid an official visit to Israel.

Noting that the five-day tour had more symbolic than immediate practical importance, Mr Koichi Tsutsumi, the ambassador in Tel Aviv, said Japan nevertheless hoped it might be able to play some political role in helping resolve the conflict.

While endorsing Israel's right to secure boundaries, Japan has in the past broadly supported the Arab position on the dispute. Although its level of dependence on Arab oil has decreased over the past decade, Japan still imports some 60 per cent of its needs from the Gulf.

The visit to Israel is being seen by both sides as an attempt to correct the balance in favour of a more even-handed stance. With virtually no economic or trade issues to discuss, the agenda is expected to be dominated by the peace process.

Treading in the footsteps of a long line of visiting dignitaries, Mr Uno's programme will include a rapid foray into a Palestinian refugee camp in the occupied West Bank and talks with local Palestinian leaders. But attempts to set up a meeting in one of the Arab countries with Mr Yassir Arafat, the Palestine Liberation Organisation chief, have so far not borne fruit.

US and EC claim summit farm subsidy victories

BY TIM DICKSON IN BRUSSELS

THE EUROPEAN Community and the US each claimed yesterday that the Toronto summit communique on farm subsidies represents a major victory for its negotiating position in the current round of global trade talks within the General Agreement on Tariffs and Trade.

Officials at the European Commission in Brussels insisted that the tortuously written passage on agriculture should be seen as a big climbdown by the US from its consistently tough demand for the elimination of all global farm supports by the end of the century.

Particular attention, for example, was being paid to the call by the heads of Government of the seven leading industrial states for the development of a framework approach which includes short-term options in line with long-term goals concerning the reduction of all direct and indirect subsidies.

Mr Giampiero Schiratti, a leading EC farm expert on the Gatt negotiations, said: "This is very important. It is the first time in my experience that the US has openly accepted a different approach."

Mr Alfred Kingon, US Ambassador to the European Community, last night sought to play down any idea of US concessions, emphasising that Washington had never objected to talks on short-term measures "as long as the EC is prepared to give a commitment on the long term.

"As far as we are concerned, this is now clearly stated in the text. I believe that, once the EC farm price discussions are out of the way, we have a real basis for negotiation but it will not be easy and it will not happen quickly".

EC experts are convinced, even so, that President Ronald Reagan's determination to keep controversial items off the summit agenda has resulted in a text on agriculture which one described as "very much in line with our thinking".

The communique, for example, suggests "ways should be developed to take account of food security and social concerns" – two issues to which much more importance has been attached recently in Europe than in the US.

The US, indeed, delivered a paper in Geneva which argued that food security as a policy objective was difficult to defend, and that the risk of food shortages being used as an economic or political tool no longer existed.

Brussels is also pleased with the committment to make the agricultural sector "more responsive to market signals" – a phrase which is identical to the wording of its position paper of October last year. It feels the Toronto declaration is in line with the objectives set out at Punta del Este in September 1986, which marked the beginning of the Uruguay Round of Gatt talks.

The Toronto summit was held against a background of sharp transatlantic exchanges on farm subsidies, including controversy over Washington's Gatt challenge to the EC oilseeds regime and Community criticisms of Washington's decision to reduce its programme for taking arable land out of production.

The European Commission has also been stung by US scepticism about the usefulness of the "stabiliser" mechanisms agreed at the Brussels meeting of EC heads of government in February.

Mr Schiratti claimed yesterday that independent research, recently conducted in West Germany, shows there will be a 7 per cent reduction in EC oilseeds production and a 20 per cent cut in prices over the next five years.

On the EC's own set-aside scheme for land – plans for which have already been announced by the UK and West Germany – Mr Schiratti said he was "more and more confident" that this will reduce cereals and oilseeds production. "I think 2m to 2.5m hectares will go in the next five years. Even after yield increases, this will mean a small cut in output."

Gatt group proposes greater involvement by trade ministers

BY WILLIAM DULLFORCE IN GENEVA

A GROUP negotiating improvements to the General Agreement on Tariffs and Trade system yesterday discussed plans to involve ministers more closely in the work of Gatt and for a more rigorous surveillance of trade policies.

The plans, which also call for greater co-operation between Gatt, the International Monetary Fund and the World Bank, could be ripe for approval by trade ministers when they meet in Montreal in December to review progress in Gatt's trade-liberalising Uruguay Round.

In the communiqué from the Toronto summit meeting the seven Western leaders underlined the importance of making Gatt more dynamic and effective.

Proposals presented yesterday by Mr Julius Katz, chairman of the group of trade negotiators, call for greater involvement by trade ministers at two levels.

A ministerial session of all 96 Gatt members with full decision-making powers would be held every two or three years. In addition a smaller group of ministers, acting on a purely consultative basis, would meet not less than twice a year.

The smaller group would assess trade developments, aim at forestalling sudden trade disturbances and examine policy questions before they were submitted to full deliberation in Gatt.

In contrast to the ministerial meetings which have been organised informally by some leading trading nations over the past two years, the composition of this smaller group would be representative of all Gatt members.

Under the proposed trade policy review mechanism the four major trading blocs, the European Community, the US, Japan and Canada, would have their policies examined every year or every two years.

Reviews of the next 16 countries, assessed by size of trade, would be conducted every two or four years, while the rest of the Gatt countries would be investigated every six years.

Israel to raise $320m loan for power plant

By Andrew Whitley in Jerusalem

ISRAEL IS TO raise a $320m Eximbank-backed loan from the US for a 1,100 MW, coal-fired power station, to be sited on its northern Mediterranean coast.

The twin-unit plant, to cost more than $420m, will be the duplicate of a plant nearing completion south of Ashkelon. Work on the Exim-backed plant is to start next year and the plant to come on stream by 1995.

The state-owned Israel Electric Company says the loan is to be provided by a consortium of First Boston, Merrill Lynch and Papco, a consortium bank. Half of the Papco share could be in the form of a bond issue to be floated in New York.

The $320m loan is the balance of a $500m credit line arranged some years ago for the Israeli power sector, $180m having been drawn down for the Ashkelon plant.

Turbines for the latest plant are to be supplied from the US, probably by Westinghouse. Most of the remaining equipment and the construction work itself, however, is expected to be provided by local companies.

A novel feature of the financial package being arranged for the Israel Electric Company is the $40m to be provided by United Mizrahi Bank's London branch. For the first time, a loan of this size is being raised for an Israeli customer without government guarantees. A further sum of 100m shekels (£35.2m) is to be raised on the small Tel Aviv Stock Exchange.

Mr Moshe Shahal, Israeli Energy Minister, recently concluded a $200m agreement for Colombia to supply steam coal over a four-year period, in anticipation of Israel's expanded import requirements once the two new power stations are completed.

Electricity consumption in Israel has been expending more rapidly than anticipated, far outstripping the increase in gross national product and requiring the advancement of existing investment plans.

EC advances insurance liberalisation

BY WILLIAM DAWKINS IN LUXEMBOURG

EUROPEAN TRADE and Industry Ministers yesterday gave final clearance to plans to liberalise the non-life insurance industry, as well as the initial green light to dismantle trade restrictions in four other areas.

They gave formal support to European Commission packages designed to enhance free trade and set common health standards for food, to fix common national regulations for pharmaceutical pricing, to scrap exit formalities for some kinds of trade between member states, and to simplify rules on the storage of goods in customs.

The decision on insurance will allow non-life companies to offer big commercial policies anywhere in the EC, and could bring a cut in premiums. This is a prominent part of the Community's campaign to create a free internal market.

The other accords will need final ratification before they can take effect in national law.

After the progress at yesterday's meeting, the West German presidency of the EC will have obtained member states' agreement to dismantle roughly 40 barriers to trade when its six-month term runs out on June 30, an achievement only equalled in recent years by the UK presidency 18 months ago.

Bonn has used its considerable diplomatic clout to expedite much internal market decision-making.

However, ministers failed to see eye to eye yesterday on the future site of an EC trademark office or on plans to enhance open competition for public works contracts.

The foods proposals set common requirements for the use and labelling of additives and flavourings, and for cleanliness, as well as outline regulations for the production, storage and distribution of quick-frozen food.

They employ the so-called new approach to standards, whereby products that conform to basic requirements, such as those on health and the provision of a set amount of consumer information, are guaranteed free access to all EC countries. This contrasts with the Commission's former method of trying to define every detail of the standards to be followed by food producers in order to win the right to free market access, under the so-called recipe style of food laws.

East European chemicals investigated

THE EC Commission yesterday re-opened an investigation of imports of sodium carbonate from five eastern European countries. The move follows complaints by western European producers that the expiry last year of anti-dumping duties had led to a resumption of dumping, David Buchan reports from Brussels.

Cefic, the European chemical industry association, claims that sodium carbonate from East Germany, Poland, Romania, Bulgaria and the Soviet Union is on the EC market again, after the EC lifted duties in November 1987. These were imposed in 1983.

Robert Taylor examines the growth in Soviet joint ventures

Finnish companies look eastwards

IN THE blazing heat of an Estonian summer's day, the most recent collaborative deal between the Soviet Union and a Finnish company was celebrated in the town of Rakvere off the main pot-holed highway from Tallin to Leningrad.

More than 150 Finnish dignitaries, including Mr Ilkka Suominen, Trade Minister, were ferried across the Gulf of Finland for the day and driven in coaches to the stone-laying ceremony for the construction of a new meat-processing plant.

The Estonians laid out the red carpet. There was a small band playing on the quayside at Tallin, a police escort to the site and a banquet of canapés, vodka and sweet wine after the inevitable speech-making.

The FM 650m (£87.6m) deal involved Suomen Rakennusvienti SRV Oy, part of a newly-formed Viitoset-Yhtiot group.

Mr Ilpo Kokkila, group managing director, stressed that his company, based primarily on sub-contract work, hopes to build its business as a middle-sized partner for Finnish, Soviet and other eastern European companies.

But the pace is hotting up for commercial ties between the Soviet Union and Finnish companies. They provide tangible evidence of the economic dimension of Mr Mikhail Gorbachev's *perestroika*.

Near Leningrad and in the city two other deals have been finalised. Wartsila laid the foundation stone for a huge diesel engine plant close to the city. A joint venture has been launched for tax-free shops in Soviet Baltic ports. This summer Enso-Gutzeit, the Finnish state-controlled forest products company, hopes to clinch a deal which involves a Soviet company having a 20 per cent stake in a pulp mill in Finland, 60 miles from the Soviet border.

Source: Monthly Statistics of Foreign Trade OECD

Until now there have been 45 joint ventures agreed between mainly western European companies and the Soviet Union. The number is expected to rise during the next few months. West German enterprises head the list of participants but Finnish companies are not far behind, with nearly a quarter having been signed by them.

Joint ventures represent the latest variant of economic projects that cross the East-West economic divide. The first joint venture was signed less than a year ago between a Finnish company and the Soviet Union. The new Soviet legislation on joint ventures was signed in January 1985 by Mr Andrei Gromyko, the Soviet head of state. At the moment, they are governed by what appear to be fairly tight regulations. Joint ventures must be covered by Soviet laws and the country's taxation system.

Above all, the Soviet partner must have no less than a 51 per cent share in each project. Those who work on them must be mainly Soviet citizens on Soviet wage rates.

Elaborate financial provisions control the joint ventures, which enable the profits earned by a foreign partner to be transferred abroad in foreign currency. However, the value of the contribution made by a western company to the joint venture has to be converted into roubles at the official Soviet exchange rate.

The Bank of Finland insists on approving every joint venture involving a Finnish company and it has drawn up important ground rules for their administration. The bank said it insists the dividends from a joint venture, as well as the sale of shares, must be paid in freely convertible currencies. Moreover, if a venture is terminated, the Finnish company's stake in the project must also be freely convertible.

Finland is anxious that its own currency reserves not be drained by any company dependence on joint ventures.

The country has a long history of close trade relations with the Soviet Union, mainly under the 1948 bilateral trade agreement between the two countries, by which Finland continues to receive its oil supplies. Last year 15 per cent of Finland's exports were to the Soviet Union but the Soviet Union is running a trade surplus with Finland because of low oil prices.

Some Finnish observers believe that joint ventures provide an opportunity to take Soviet-Finnish trade beyond the old regulatory system that has been in place for nearly 40 years.

A growing number of Finnish companies regard joint ventures as a logical evolution from past collaboration. However, many of them are cautious about their long-term future.

"All the rules and regulations imposed in the USSR provide us with a serious problem," admitted Mr Kustaa Puotiainen, Suomen's financial director. "The Soviet attitude to interest rates and money markets is different to ours. I'm impressed by their efforts to understand how companies operate in capitalist societies. There has been a big change compared with two years ago."

"The banks are certainly taking a risk by becoming involved in joint ventures," said the Confederation of Finnish Industries.

However, the Soviet Union's authorities on joint ventures seem well aware of such difficulties and to be open-minded about trying to find ways to reassure western companies. "We are going to be flexible," said Mr V. D. Shibaev, commercial attaché at the Soviet embassy in Helsinki.

BUSINESS LAW

Local laws ruling by Supreme Court

By Andrew Vollmer and Scott Hoing

IN A SHARP reversal from a recent series of decisions on international commercial matters, the US Supreme Court ruled last week that courts and legislators in the United States may adopt local laws allowing US plaintiffs to ignore the terms of a multilateral treaty designed to simplify and improve international legal procedure.

The ruling *Volkswagenwerk AG v Schlunk*[1] concerned the proper procedure for formally delivering the documents initiating a lawsuit to a foreign corporation that did not have a place of business in the United States and that had not appointed a US agent to receive such "service of process".

The court held that a plaintiff does not need to use the procedures of the multilateral treaty, the Hague Service Convention, when the foreign corporation has a wholly owned subsidiary in the United States and state law permits service on the subsidiary as an "involuntary agent".

The court's decision in *Schlunk* is a marked departure from the increasing "internationalism" that animated its recent opinions on comparable transnational commercial questions. A year ago in *Aerospatiale* the Court said that US courts should exercise "special vigilance" to protect foreign litigants from being disadvantaged by unnecessary or burdensome pre-trial discovery, although it declined to require parties in US proceedings to use the procedures of a different international treaty, the Hague Evidence Convention, to obtain evidence from abroad.[2] Only months earlier the Court had said in *Asahi* that the "unique burdens" of being forced to defend a lawsuit in a foreign legal system should have significant weight in assessing whether a court in the United States should exercise jurisdiction over a foreign defendant.[3] And in 1985 the Court boosted the use of international arbitration proceedings, emphasising that courts should be sensitive "to the need of the international commercial system for predictability in the resolution of disputes".[4]

Hague Service Convention

The Hague Service Convention is a multinational treaty that prescribes methods for transmitting judicial and non-judicial documents for service abroad in civil and commercial cases. Its main purposes are to simplify international service of process and to ensure that defendants sued in foreign jurisdictions receive actual and timely notice of suits by establishing an inexpensive, reliable and uniform procedure for service. The Convention also provides for documents to be translated into the language of the recipient and limits the possibility of unfair default judgments. Thirty two countries, including France, the UK, the US, and West Germany, are signatories to the Convention.

Before the Convention, international service depended on the individual practices of the countries involved in the litigation. The multiplicity of local rules frequently meant that foreign corporations would not receive any notice, much less timely notice, of proceedings instituted against them.

The Schlunk case

The *Schlunk* case arose out of a 1983 car accident in Cook County, Illinois. Schlunk, whose parents were killed in the accident while driving their Volkswagen "Rabbit", filed a wrongful death action in Illinois state court alleging that Volkswagen Germany had designed and sold a defective car that had caused or contributed to his parents' death. Schlunk attempted to serve the legal documents initiating the case on Volkswagen Germany by delivering them to its wholly-owned US subsidiary, Volkswagen America, as the agent of Volkswagen Germany.

Volkswagen Germany argued that the service was not proper because, as a foreign defendant, it could be served only in accordance with the procedures of the Hague Service Convention. The Illinois trial court rejected Volkswagen Germany's argument. It found that Volkswagen American and Volkswagen Germany were so closely related that Volkswagen America was Volkswagen Germany's agent as a matter of law, regardless of whether Volkswagen Germany had appointed its US subsidiary formally as its agent to receive process. The court concluded that because service occurred in the United States, the Hague Service Convention did not apply. The Appellate Court of Illinois affirmed the lower court's ruling.

The decision of the US Supreme Court

The US Supreme Court unanimously agreed that the Hague Service Convention did not apply in this case and that Volkswagen Germany had been properly served through substituted service on its wholly-owned subsidiary. Justice O'Connor, writing the majority opinion in which five other justices joined, concluded that although the Convention is mandatory when service is transmitted abroad, it is the forum state's internal laws that define conclusively whether a given method of delivery is "service abroad" or whether it is "domestic service". In this case, the Court states, Illinois law authorised Schlunk to serve Volkswagen Germany by substituted service on its wholly owned domestic subsidiary without sending the documents to Germany. Service therefore was accomplished in the United States, and the Convention was not applicable.

Three justices, while concurring in the result of the majority's opinion, disagreed strongly with its reasoning. They argued that the majority's highly technical reading of the language of the Convention and its negotiating history was flawed because it deprived the Convention of any mandatory effect. The concurrence pointed out that, under the rule adopted by majority, "a forum nation could prescribe direct mail service to any foreigner and deem service effective upon deposit in the mailbox". The minority justices contended that, although the Convention's language does not specify e precise standard to distinguish between domestic service and service abroad, it establishes limits on a forum state's ability to deem service "domestic" and thereby avoid application of the Convention.

The concurring justices nonetheless stated that it was "remarkably easy" to conclude that the Convention did not prohibit the service at issue in *Schlunk*. They stated that service on a wholly owned, closely controlled subsidiary was reasonably calculated to reach the parent "in due time" as the Convention requires.

Implications of the decision

The Court's decision not only eviscerates fundamental protections afforded by the Convention, such as the translation and default judgment provisions, but it has at least two important long-term implications, one for the operation of the international judicial system and one for foreign companies doing business in the United States. Both are a direct consequence of the Court's approval of a rule of law that grants US courts and legislators free rein, constrained only by the due process guarantees of the US Constitution, to define involuntary agents and procedures for "domestic" service of process.

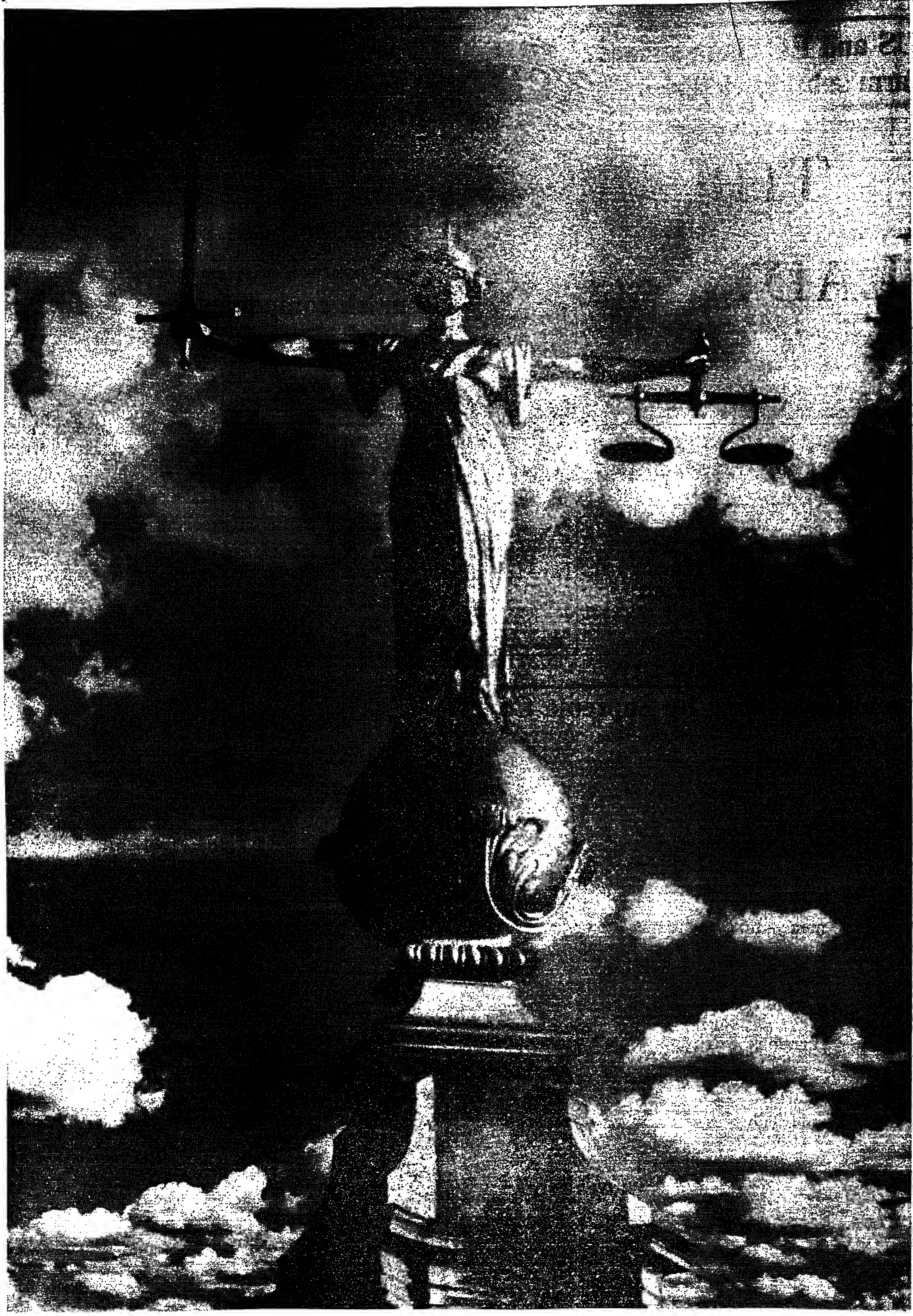
The implications for the international judicial system arise because the Court's decision allows resurrection of methods of international service that were the very reasons for drafting and signing the Convention. Other signatories will certainly take issne with this ontcome. The record in the *Schlunk* case contained diplomatic protests about the results reached by the Illinois courts from four of the major trading partners of the United States. Moreover, as the Court was aware, retransmission of judicial documents abroad after service on an involuntary agent offends the sovereignty of many civil law countries. The Court's decision therefore invites retaliation and encourages other countries to construe the Convention in a similar way, perhaps leading to a revival of the hotch-potch of inconsistent and potentially unfair service practices that prevailed before the Convention.

The implications for all foreign companies that conduct business in the United States, especially those with US subsidiaries, are also potentially severe. Little prevents US law from now permitting service on a foreign company through subsidiaries that are not wholly owned by the defendant, distributors, consignees, sales agents, and other affiliates with no legal obligation to notify the foreign company of their receipt of service.

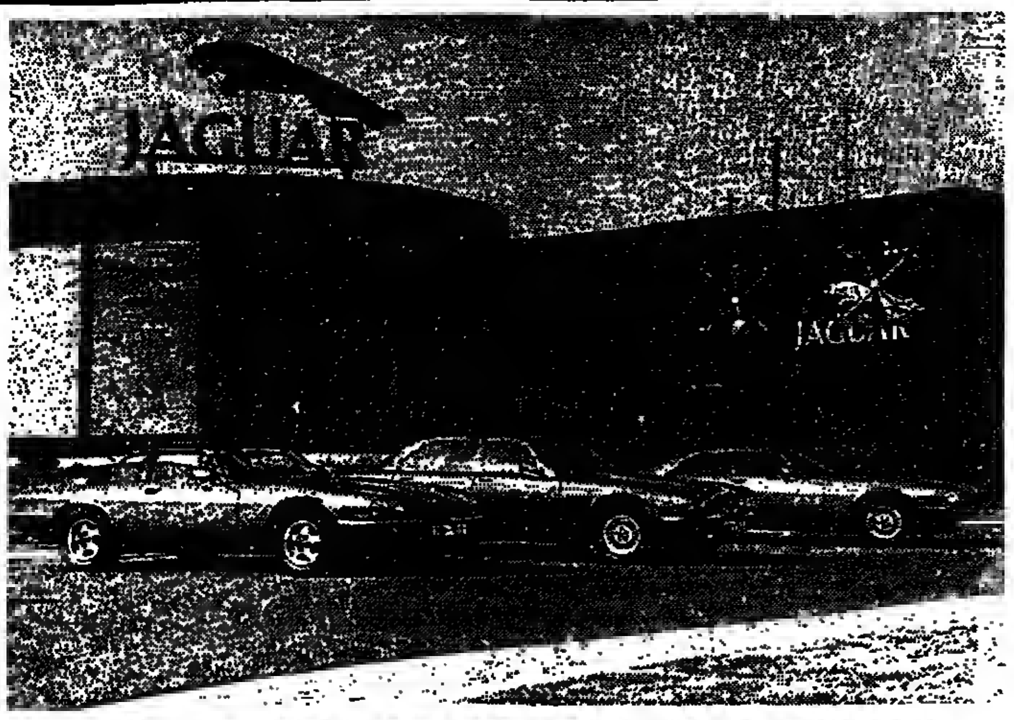
The *Schlunk* decision seems to be a retreat from the Court's recent efforts to restrain the parochialism of US courts and to foster rules that smooth the functioning of the international trading and judicial systems. On balance, the costs appear to be unnecessarily high when the alternative would have been a simple duty to use the established, internationally accepted mechanism of the Hague Service Convention.

[1] *No.86–1052 (15 June 1988)*
[2] *Societe Nationale Industrielle Aerospatiale v United States District Court, 55 USLW 4842 (1987)*
[3] *Asahi Metal Industry Co v Superior Court, 55 USLW 4197 (1987)*
[4] *Mitsubishi Motors Corp v Soler Chrysler–Plymouth Inc. 53 USLW 5069 (1985)*

Mr Vollmer is a partner and Mr Hoing an associate in the law firm of Wilmer, Cutler & Pickering



MANAGEMENT



Jaguar's Kronberg showroom near Frankfurt: selling to a highly car-conscious market

Jaguar: image building in West Germany

BY ANDREW FISHER IN FRANKFURT

CRUISING PAST the Jaguar headquarters on the outskirts of Frankfurt, attentiva drivers might feel they had strayed into a minor time warp. There, unmistakeable in the big window of the elegant dark green building, is a shiny red E-type convertible, almost demanding to be taken for a spin through the nearby Taunus hills.

The prominent position of the classic 1960s sports car illustrates the view expressed by Lars-Roger Schmidt, general manager of Jaguar Deutschland, that in the luxury car market, "three-quarters of the marketing is the product itself and the rest is sales organisation and advertising."

With its highly photogenic cars, the British company has a strong image – enhanced by its win at Le Mans – in West Germany, one of the most car-conscious countries in the world. In some ways, suggests Schmidt, it is almost too strong. At one extreme, many people tend to assume that a Jaguar would be utterly outside the reach of their bank balances. The cheapest, the XJ6 3.6 litre, costs DM75,000 (£24,000); the costliest is the new XJS 5.3 litre V12 convertible at DM113,000.

"A lot of people could afford a Jaguar, but think they would be over-reaching themselves. They think it's more like buying a Rolls-Royce or a Ferrari. Women, especially, like the idea of driving around in a sleek Jaguar," says Schmidt. "This excellent image gives it a dream-like quality."

But men tend to be more sceptical, and not just because they think the price might be too high. People still remember the time when Jaguar, then part of British Leyland, went through a rough time in the 1970s and early 1980s, and the gibe was that you had to buy two, since one was always being repaired.

These days, the privatised company is an altogether different operation and quality has been given top priority. In Germany, Jaguar made a fresh start four years ago, with new management and a new headquarters. Even so, notes Schmidt regretfully, "we still suffer from the bitter, negative years when Jaguar was part of state-owned British Leyland." Thus many potential customers in Germany still lack confidence in the car. "Buyers often have to defend their purchases strongly to sceptical friends."

Word-of-mouth recommendation is vital to Jaguar Deutschland at this early stage, stresses Schmidt, a former marketing director at Porsche. "Buyers mostly have to be talked around by current owners." Jaguar does advertise in glossy social, sporting, and business magazines, hyping the grace and exclusivity of a fast car with plush leather and wood interiors. But its promotional budget is tiny compared with its main competitors.

By seeking to boost its sales in Germany – last year, these rose from 1,790 to 2,180 cars (a third of its Continental sales) – Jaguar is moving deeper into the lion's den. Its three biggest world competitors, Daimler-Benz, BMW, and Porsche, are all German. "So, it's especially hard for us in the German market. We can't sell a Jaguar here as a better car, technically. But we can sell it as a different car in terms of beauty and styling. The visual element is decisive."

After its past difficulties, Jaguar is taking a solidly long-term approach in Germany, aiming to build up to around 5,000 cars a year in the mid-1990s, twice the level planned for 1988. This would be around 10 per cent of the German luxury car market, the world's second biggest after the US and thus of key importance for the British manufacturer. The ambitious goal is one set by Sir John Egan, the chairman, himself.

"The luxury car market is a very steady one and is not really affected by swings in the economy," adds Schmidt. However, the market does occasionally receive an adrenalin shot, when an exciting new model appears. This happened when BMW launched its eye-catching new 7-series at the top of its range near the end of 1986. The model has been a big success, outpacing Daimler-Benz at the top of the market.

Lars-Roger Schmidt

Jaguar's new XJ6 came to Germany at around the same time, also drawing admiring glances from the press and public. But while Jaguar is in competition with BMW, with both the Munich company's 7-series and, to a lesser extent, the recently unveiled 5-series which is one level down in the same design family, its customer profile is quite different.

Both makes of car appeal to individualists, with an emphasis on fun as well as technology. But while Jaguar is a popular executive model in Britain, it is virtually excluded from that side of the business in Germany. "In Germany, it is almost impossible for an import to find its way onto the front parking area of a big firm," says Schmidt. Not surprisingly, German companies buy German cars, Mercedes (Daimler-Benz) and BMWs for their executives and mainly Volkswagens, Fords or Opels for lower level managers.

In the UK, 65 per cent of Jaguar's sales are to company fleets, though most are business-related in some way. In Germany, says Schmidt, "our cars are bought by small, independent businessmen and professional people like doctors, architects and lawyers." Managers in big companiea would find it hard to persuade their employers to buy oue. "Thus our goal of 10 per cent (of the luxury car market) is very ambitious."

Jaguar Deutschland, a partnership between Jaguar itself and the Swiss-based Emil Frey car importer and distributor, is now making a big push on the training front. Its 99 dealers and their salesmen are being shown how to present the cars more effectively and how to put their qualities across to potential customers more stylishly. This year's training budget has been doubled.

"We tell our dealers not to advertise in the newspapers, but to try and host events that will typify the Jaguar appeal," says Schmidt. These can include fashion shows, boat trips, anything associated with a certain lifestyle and where they can come into contact with potential customers.

For Schmidt, tha steady upgrading of the dealer network is more important than a heavy advertising programme. There are no plans to raise the number of dealers, a step that would be futile in view of the small numbers of Jaguar cars sold in Germany. The luxury segment of the German market includes around 250,000 people, and represents only some 2 per cent of total yearly new car sales.

Jaguar's present sales in Germany give it a tiny 0.1 per cent of the total market, though its long-term goal is 0.2 per cent. But at the top end, comprising cars above DM 90,000, it has as much as 10 per cent. One step lower, in the DM 70-90,000 range, its share is about 5 per cent. It is here that it would like to do better, by selling more XJ6s. It cannot go any lower, into the DM60-70,000 category, because the 2.9 litre model that is so popular in the UK would be under-powered on Germany's furious autobahns when fitted with a catalytic converter.

"The pyramid is a bit narrow at the top. When you get above DM100,000 the air is extremely thin." Thus, for Schmidt, one key task is to convince affluent Germans that they can purchase a Jaguar at prices below this. He points out that around 40 per cent of BMWs and Daimler Benz luxury car sales are at the lower end of that market segment.

One comfort for the Coventry company is the fact that re-sale prices of Jaguars (and for those cars it sells under the Daimler marque) have risen considerably in recent years, as their quality and image have improved. But they still lag behind those of German manufacturers. Jaguar still has a long hard drive ahead.

TV drinks ads ban still seems unlikely

BY LISA WOOD

RENEWED speculation that alcohol advertising may be banned in the near future on British television and cinema screens is probably ill-judged with the Government shortly expected to approve revisions to existing codes governing alcohol.

The banning of alcohol advertisements on TV and in cinemas was suggested last year by the Home Office Standing Conference on Crime Prevention, chaired by Baroness Masham.

The recent eruption of hooliganism among drunken young football fans has resurrected the notion of much stricter regulation – or banning – of drinks advertising; Leslie Curtis, chairman of the Police Federation, this week called for an end to "macho" drinks advertisements.

The Masham committee made its controversial recommendation in spite of conceding to the drinks lobby that there was no evidence that advertising increased the consumption of alcohol.

Advertising (on which the industry spends around £300m a year), according to the Masham committee, was undouhtedly influential in shaping attitudes. Masham recommended a ban "in line with the increasing practice in other European countries."

The proposal was rejected early this year by a ministerial group, under the chairmanship of John Wakeham, Leader of the House of Commons, which is co-ordinating government strategy on alcohol.

Wakeham'a group asked the Independent Broadcasting Authority and the Advertising Standards Authority to review their codes of practice.

Television advertising of alcohol is governed by the Independent Broadcasting Authority Code of Advertising Standards and Practice. All other advertising – such as print, cinema and public transport – is covered by a voluntary code agreed hy a number of organisations with sanctions available to the Advertising Standards Authority.

Final recommendations made by the IBA on a fine-tuning of the code governing alcohol advertisements on TV are currently being examined hy the Home Office with proposed changes expected to be published within the next few weeks. Within a similar time scale the Advertising Standards Authority is expected to publish a revision of its code.

TOP TEN DRINK ADVERTISERS

Brand	Spend(£m)	Agency
Carling Black Label	5.6	WCRS Mathews Marcontonio
Heineken	5.2	Lowe Howard-Spink
Foster's	4.5	Boase Massimi Pollitt
Tennent's Pilsner	3.8	Grey
Guinness	3.5	Ogilvy & Mather
Miller Lite	3.5	Boase Massimi Pollitt
Carlsberg Pilsner	3.0	KHBB
Martini Extra Dry	2.9	McCann-Erickson
Castlemaine XXXX	2.6	Saatchi & Saatchi
Holsten Pils	2.5	Gold Greenlees Trott

Source. Trade estimates

Greater control of rogue advertisers

NEW POWERS to curb rogue advertisers who flaunt the voluntary curbs on misleading advertising were this week given to Sir Gordon Borrie, Director General of Fair Trading.

The powers will for the first time enable Sir Gordon to seek an injunction to prevent an advertisement appearing if he believes it would be against the pnblic interest for the advertisement to circulate in public.

"There is a danger of standards declining generally if the more reputable begin to feel that others less conscientious than themselves are taking trade away from them," points out Sir Gordon.

"Yet high standards of advertising are a prerequisite for obtaining and keeping a high reputation and in the long run essential for success."

In effect, the new powers are aimed at controlling advertisers – such as direct marketing companies or free-sheet newspapers which are not members of their industries' trade associations – where existing voluntary controls may be least effective.

At present the Advertising Standards Authority, an independent body financed by a levy on advertising, monitors advertisements other than those on radio and television to see if they comply with the Code of Advertising Practice. It also adjudicates on complaints made from the public and others abont advertisements which have been published.

But the ASA has no statutory powers to enforce its decisions and instead relies on pnblicity and pressure on media owners such as newspaper and magazine publishers to ensure that misleading ads are not published.

In spite of internal Whitehall reviews in the early 1980s recommending that tougher legal powers were needed, the Government was not convinced of the need for immediate action and instead waited for a European Commission directive to be laid down in 1986. It was this directive which was implemented in Parliament this week.

What type of advertisements are likely to face Sir Gordon's new powers? The OFT says that advertisements which contain false facts, conceal crucial information, or promise to do something when there is no intention at all of carrying it out are liable to be considered misleading.

The ASA suggested yesterday that the three main categories of advertisements with which it has had persistent problems are those offering "miracle" slimming aids, offering employment to homeworkers, and advertisements for time-share properties abroad.

The OFT is adamant that it will only act if existing controls have failed and the advertisement is of "sufficient gravity". Bnt having waited so long for these powers, Sir Gordon may decide to move swiftly to seek a test case as a warning to persistent rogue advertisers.

A free guide to the new regulations is available from the OFT Distribution Unit, Room 612, Chancery House, Chancery Lane, London, WC2A 1SP.

David Churchill

Until very recently, only those in the upper echelons of the social register ever inherited anything of any real worth. As the heirs of "well-to-do" families they knew what was coming to them, just as they knew what was expected of them.

This wealthy and worldly minority (perhaps 10% of the population) is now about to be superseded by a new, larger and more volatile band of inheritors: today's middle-aged, middle classes.

It is they who are set to become the "nouveau riche" of the 90's and beyond. And they will, in a very real sense, owe it all to their parents.

For it was the post-war generation who first enjoyed widespread home ownership. Now retiring in their millions, they will soon be conferring their wealth upon their already affluent 40 and 50 year old children.

A portentous event when one considers that even a modest estate can now be expected to top the £100,000 mark.

In fact, estimates predict that by 1997, parents passing away will pass on a staggering £24 billion a year. (240% up on current levels.)

Undeniably, the impact of this quiet, yet colossal transfer of wealth will be immense. It will affect

OVER THE NEXT 10 YEARS, MILLIONS OF PEOPLE WILL BE CONFRONTED WITH A UNIQUE PROBLEM.

companies big and small, old and new, progressive and old-fashioned alike. It will doubtless affect you and your company. After all, millions of dutiful sons and daughters will be presented with dauntingly large legacies.

But will they spend, spend, spend? Or will they use their vast discretionary wealth with discretion?

Will they, as some pundits predict, fritter their money away on the likes of fritto misto di pesce and moules à la crème; German fitted kitchens; Milanese designer furniture; winter holidays in St Lucia and summer jaunts to gîtes in the Camargue?

Or will they, as rival experts would have us believe, plough their considerable capital into the City's money markets?

As it is, 1 in 5 adults now hold stocks and shares of one sort or another. 1 in 3 have taken out their own private pension plan. 1 in 10 have decided to invest in private health care. These figures could advance dramatically given sufficient nouveaux inheritors with sufficient financial perspicacity. No area of finance would remain untouched.

Private education, for example, could become a realistic and popular option for legions of middle class families overnight.

Whilst an ever-decreasing retirement age and a less munificent welfare state could bring pension and private health care planning to the front of millions of minds.

The vagaries of luck and fate need not decide your company's eventual response to all this, though. You can start doing something about the matter today, just by thinking ahead.

For forward planning is the only answer. An answer that we at Ernst & Whinney have put into practice for companies of all sizes and complexions. In all probability, your company could benefit from contacting us. After all, without wishing to blow our own trumpet, we do have a wealth of experience.

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Accountants, Advisers, Consultants.

An on-the-counter revolution

Louise Kehoe on the brave new world of desk-top computers

THE LATEST in personal computer technology - super fast powerful machines with huge memory capacity - is irrelevant to most pc users. While the new high-performance products launched recently by IBM and Compaq Computer may extend the market for personal computers into new specialist application areas such as computer-aided design, they do not add to the mainstream market for office applications.

Using such machines to perform regular word processing and R&D sheet analysis tasks is rather like serving hot dogs on a silver platter. The mechines are too expensive and grand for the job.

Far more significant is a class of personal computers that is expected to emerge over the next few months and is designed to serve the needs of the majority of business and personal users. These machines, which will initially sell in the $3500-$6000 price range could quickly set a new standard for office desk-top computers.

Based on s new Intel microprocessor called tbe 386SX, tbese computers will incorporate many of the performance advantages of the latest, more expensive personal versions at a small price premium over existing standard products such as the many clones of IBM's old pc "AT", or IBM's newer mid-range PS/2 Model 50, all of which employ Intel 286 microprocessors. Compaq Computer's new Deskpro 386S, introduced on Monday, is the first of many such machines that are expected to be announced by major personal computer makers this year.

Industry analysts foresee a major shift toward the "386SX" class of personal computers as buyers recognise the advantages of the new machines.

The 386SX could render obsolete the 286 machines, but Compaq and others maintain that this will uot happen. By adjusting prices the computer maker aims to reposition the 286 machines, which represent over 50 per cent of its unit sales, as low-end models. Already, both Hewlett-Packard and NCR have responded with price reductions on their 286-based personal computers.

"Over a period of years we expect to see machines based on the older Intel 8088/8086 microprocessors pusbed out of the business market," says Mike Swavely, vice-president of marketing and sales at Compaq.

Price conscious buyers will continue to buy 286 clones, Intel predicts. "We expect to see 286 sales continue to grow for another coople of years," says Claude Leglise, Intel's director of marketing for microcomputer products.

For US personal computer makers such as Compaq, the 386SX represents a route out of the fiercely competitive low-end of the personal computer market, and a way to bolster their lucrative mid-range sales.

The big winner from this development will be Intel Corporation, the sole supplier of the 386SX microprocessor. Intel shared the sales of earlier generations of its microprocessors, including the 8086 and 286 with licensed "second source" chipmakers. These arrangements helped to establish Intel micros as standards for the personal computer industry, but Intel faces stiff competition from its licensees.

With the 386 generation, Intel is determined to get a higher return on its design and development investment. The company has refused to second source the chips.

Intel claims that it can meet demand for the 386 and the new 386SX by expanding its production capacity and has guaranteed customers that it will reduce prices quarterly, to simulate the conditions of a competitive market.

"We would prefer not to have only a single source, but it is a reasonable risk to take," says Compaq's Mike Swavely. Olivetti, which plans to launch s 386SX persoual computer later this year, expressed confidence in Intel, suggesting that as one of the largest computer manufacturers in Europe it can wield some influence over its suppliers.

If, however, as many analysts predict, the 386SX quickly becomes the "workhorse" of the personal computer market, then Intel may be faced with the task of placating dozens of personal computer makers, each wanting a "special" relationship with its supplier.

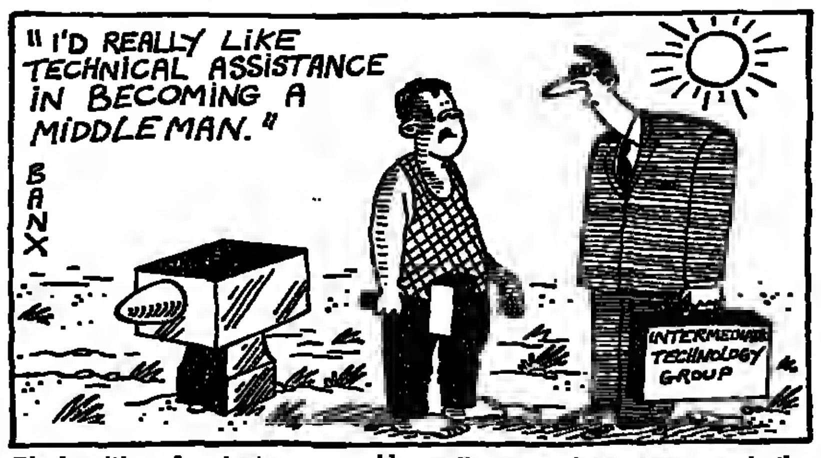
With its sole source strategy, Intel runs the risk of splintering the hardware standard that microprocessors have helped to create.

Hints of what may lie ahead are already visible in the computer workstation and minicomputer markets, where groups of computer makers are joining forces in attempts to establish software standards for dissimilar computer hardware. These developments suggest that personal computers coold similarly become non-standard hardware "platforms" which hide their true nature from the end user through layers of interface software.

While Intel's new 386 may in the short term set a new standard for businesses personal computer performance , the chip maker's determination to "own" the market for its chips could ultimately reshape the industry it has played a large part in creating.

John Madeley on the application of technology to the tiniest of enterprises

A small ray of hope for Third World economies



ONE OF the main aims of Third World aid is to help local populations to help themselves.

In farming, this has led a number of aid organisations to coucentrate on developing simple technology involving equipment which can be maintained locally. Now the same principle of providing appropriate technology is being applied to tiny enterprises, the development of which offers some hope for the recovery of their countries' beleaguered economies.

These non-farm units of production, employing less than five people and using a minimum of capital, use local materials, cater for local markets and are usually run by people with little formal education. Often they operate outside the official economy and a large percentage are run by women.

These "micro-enterprises" cover virtually every field of buman activity, notably making clothes, processing food, baking bread, milling, dry cleaning, handicrafts and the repair of vehicles, sboes and electrical goods.

Although they provide employment for substantial numbers of people, they are ofteu hindered by government policy. When help is available, it is usually in the form of credit rather than technology.

"Micro-enterprises are big business" was the banner at a recent conference in Washington, hosted by the World Bank and otber aid ageucies, whicb considered the potential and the problems of these enterprises and identified ways in which international support could be given.

The chief constraints on growth are technological, according to Matthew Gamser and Frank Almond, of Intermediate Technology Development Group (ITDG), based at Rugby in the UK. Their message to the conference was that micro-enterprises "pose great technological problems which finance alone can rarely resolve."

Gamser and Almond point to three main problems faced by micro-enterprises:

- Limited availability of tried and tested production systems for small-scale decentralised operations.
- The need to work in conditions of uncertainty, particularly in the supply of raw materials and equipment.
- Government policies that restrict the producers' abilities to use even those limited materials and techniqnes at their disposal.

While large producers often have a selection of technological packages to choose from, their small counterparts can rarely draw upon "off the shelf" products.

The "micro-baker", for example, has noue of tbe technological facilities available to larger businesses. He or she needs help, say Gamser and Almond, to assess available raw materials and to use them to develop ovens that can be maintained locally.

Timber is often the only affordable fuel for these bakers "and baking bread with wood is difficult," says Almond. Intermediate Technology has belped develop a drum oven in Malawi and its use is being spread through a national small enterprise programme.

The aim was to overcome the problems of heat loss and fuel wastage associated with the traditional beehive-shaped oven, in which a fire was lit to heat the oven, then the ashes raked out before baking. The whole thing would then cool down and have to be reheated for another batch.

As timber tends to be costly and scarce, fuel efficiency is a vital part of the drum oven's design. A 40-gallon oil drum is laid horizontally over a firebox and the whole structure is insulated with bricks and mud. This enables burning to go on efficiently in parallel with the baking.

Another common problem in African villages, say Gamser and Almond, is the lack of techniques suitable for the exploitation of local opportunities. Blacksmiths, for instance, could strengthen local economies by making more agricultural implements, but are often constrained by inadequate forges

"Advice on upgrading available metal scrap through simple tempering procedures can greatly increase the range and durability of their products," say Gamser and Almond.

For example, blacksmiths need to recycle the springs of cars and lorries to obtain tempering steel from which they can produce cutting edges. The springy but hard steel has first to be softened so that it can be cut and shaped. This involves heating the steel to the right temperature and then cooling it very slowly. After shaping, the metal has to be rehardened by tempering - heating it again but to a lower temperature and then cooling it. Intermediate Technology has helped with training, for example, by showing workers how to recognise the heat of the metal by its colour.

Government policies are often a hindrance to micro-enterprise growth. "Policy constraints are common in the building materials and construction sector," Gamser and Almond point out. "While almost all developing countries possess deposits of limestone and pozzolanic (volcanic ash) materials which could be extracted in small mining operations, most still maintain building codes that require the use of Portland cement in all construction - usually copied verbatim from European building regulations."

The use of local building materials would not only increase local incomes and generate jobs, but also save scarce foreign exchange.

While changes in government policies can assist microenterprises, Marilyn Carr, adviser on small enterprise developments to the United Nations Development Fund for Women (UNIFEM), believes that non-government organisations are in a better position to offer practical help. "Government agencies are often too far removed from microenterprises to really understand the problems they face," she says.

WORTH WATCHING

Edited by Geoffrey Charlish

CAD system

SIEMENS, THE West German electrical and electronics group, is offering a computer-aided engineering and design system, aimed at electrical designers, which is able to produce equipment front panel layouts and circuit designs at the same time.

Called Sigraph-ET, the system provides a complete range of scaled symbols for both mechanical and electrical items, allowing the best panel design to proceed along with the circuit work. The physical spaces for connections behind the panel are defined and managed so that workshop assembly of the product itself is simplified, with adequate space for wiring and the use of tools. Design work is easily carried out on the screen and the software performs plausibility checks on each move the designer makes (to avoid wiring clashes for example).

Useful rubbish

TWO-YEAR-old West Midlands rubbish at Allsops Hill landfill site will be used by UK company Tarmac Econowaste in a plan to provide some 2,000 homes, or an average sized factory, with electrical power.

Production is expected to start later this year. Methane gas from the decomposing rubbish will be used to drive generators which, during the day, will run plant at the nearby Hailstone Quarry. At other times the energy will go into the national grid.

Pricing a network

SOFTWARE FROM Cristie Electronics of Stonebouse, Gloucester, allows communications and data transmission executives to cost existing and planned network circuits, whether they have been obtained from British Telecom or its rival, Mercury. It is claimed that many hours of research and planning can be obviated, reducing costs.

The software, called Networkprice, is for use with IBM personal computers and compatible machines. Supplied with the names of the interconnected locations in a network, it can then show the precise financial effect of any tariff changes. Similarly, with all the necessary information held in the database, the system can show the minimum cost routing for any additions to the network.

Secretaries and PCs

RESEARCH CARRIED out in the UK by a software company (Lotus) and a recruitment and training company (Manpower), throws some interesting light on the use of personal computers by secretaries and what they and their bosses think about PCs in general.

Three years ago only about 20 per cent of secretaries spent more than half their time working on PCs.

Today, over 50 per cent are doing so and the report says that if used productively, the time recaptured would be worth several hundred million pounds in the UK alone.

However, the research reveals that althougb skills have been added and the work becomes more interesting, only a minority have won higher pay.

There is now emerging an elite, says the report, who have developed their skills in using management software so that work is being delegated to them. A small but significant minority are advancing their careers in this way.

An important issue for personnel staff is managing the productivity gains that PCs deliver in the secretarial day.

One way, says the report, is to encourage managers to delegate even more computer to work to their secretaries.

Called "Secretaries and IT - which Way for the Future?" the report is available from Manpower at £25.

Contacts

Manpower: UK, 0753 73111. Ericsson Radio Systems: Sweden, 101 732730. Cristie Electronics: UK, 0272 842298. Tarmac: UK, 0902 307407. Siemens: UK office, 0932 752823.

CAA to review air traffic handling

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

A STUDY on handling the increasing air traffic over London and the south-east is to be undertaken by the Civil Aviation Authority at the request of the Government. The authority will report by July next year.

The findings could mean changes in the structure of UK air transport and the type of traffic airports handle.

For example, the study will consider if London's Gatwick Airport should become an all-scheduled service airport, with charter flights (currently the bulk of its operations) moved to Stansted, to the east of the capital.

Transport Secretary Mr Paul Channon, announcing the study in the House of Commons yesterday, said policies for the distribution of air traffic in the London area needed to be reassessed in the light of traffic growth and problems arising from congestion.

The study would aim at producing a policy that would make effective use of existing and planned airports and other facilities, including those outside the region.

It would also seek to promote competition among airlines and encourage "a sound and competitive multi-airline industry in Britain with a variety of characteristics serving the whole range of travellers' needs."

Mr Channon said that the inquiry made it inappropriate for him to introduce ideas for traffic distribution made by airlines and other interested parties.

These included frequency capping at Heathrow – restricting the number of services permitted per hour – and giving priority to certain types of scheduled traffic during peak hours at Gatwick.

Mr Channon said: "I have every expectation that, pending the authority's advice, the scheduling committees at Heathrow and Gatwick will remain able to deal with the problems of peak hour demand without further traffic distribution rules."

He added that he remained conscious of his powers to take emergency steps "if an urgent need arises".

In a letter to Mr Christopher Tugendhat, chairman of the CAA, Mr Channon says that the authority would have to take into account the UK's international obligations not to discriminate against foreign airlines.

The authority would also need to have regard "to securing the sound development of civil aviation throughout the UK" and to the reasonable interests of consumers.

Mr Channon wants the report by July next year so that any new rules can be ready for the International Air Transport Association meeting later in 1989 to co-ordinate timetables for the 1990 summer season.

The Department of Transport is preparing forecasts for UK traffic growth to the end of the century, to replace forecasts prepared in 1986 which have been overtaken by higher than expected growth in the past two years.

The 1986 forecasts said the base year figure of 45.4m passengers in London and the south-east in 1984 would roughly double to a minimum of 80m and a maximum to 114.6m by the year 2000.

The air transport industry believes the higher figure will be more accurate and that assumptions governing airport, runway and air traffic control developments need to be reconsidered.

● European air traffic is likely to continue growing at between 6 and 7 per cent a year over the next five years up to 1992, according to the Association of European Airlines.

The 21 members of the AEA include all the major national airlines of Western Europe, including British Airways, Air France, Lufthansa, KLM of Holland, Scandinavian Airlines System and Swissair.

The AEA said there were indications that the exceptionally strong growth trend of the past twelve months could now be slackening, moving closer to the 8 per cent growth forecast for the whole of 1988.

Too few inspectors for hazard waste sites

By John Hunt

CONCERN over the lack of government inspectors to deal with the steeply rising imports of hazardous waste into the UK was voiced yesterday as the Hazardous Waste Inspectorate published its third report.

It said that there were only five inspectors to deal with 5,000 waste sites. That was described as "patently inadequate" by one senior inspectorate official.

The report comes at a time when the inspectors are finding it difficult to get sufficient information to keep track of the increased inflow of waste.

Her Majesty's Inspectorate of Pollution, which has now incorporated the Hazardous Waste Inspectorate, is looking at the shortage of resources. Because of the staff shortage, only 24 sites were visited by inspectors during the year to April 1987 – the period covered by the report.

During that year 53,000 tonnes of hazardous waste were imported, more than double the previous year's figure of 25,00 tonnes. The level is expected to increase further this year and next.

The largest exporter is the Netherlands which accounted for 55 per cent of UK imports. Eire and Belgium were next, with 12.5 per cent each, while Portugal, Canada and the US accounted for about 2.5 per cent each. The remainder came from Denmark, Norway, Sweden, Spain, Italy, Australia, Singapore, Hong Kong and Switzerland.

The reason for the trade is that the cost of disposal by British contractors is much lower than in other West European countries. The British Government takes the view that such imports are permissible so long as they conform to safety regulations.

The inspectorate found that more British ports were handling the trade. The previous year it had found nine ports involved: in 1986-87 this had risen to 31.

There is, the report says, a proliferation of brokers entering the import trade and companies that have no experience of disposal.

The inspectorate says there has been some improvement in waste disposal but there is still a need for greater professionalism and training.

Government promises review of 'poor quality' statistical data

BY PETER RIDDELL, POLITICAL EDITOR

THE GOVERNMENT is to undertake an immediate review of the quality of official economic statistics following strong criticisms by a House of Commons committee and by City and business economists.

There have been complaints about discrepancies and subsequent large revisions in measures of economic growth and large unexplained items in balance of payments statistics. These affect the view taken by financial markets of economic developments.

It has been suggested that some of the problems result from cuts in Government resources devoted to collecting economic and related statistics as part of efficiency drives in the early 1980s.

The review, conducted as an efficiency scrutiny by the Cabinet Office, will examine "the present inter-departmental arrangements for the production of Government economic statistics and to make recommendations for achieving cost-effective improvements where necessary."

As a major compiler of economic statistics the Department of Trade and Industry will be conducing a complementary review of its business surveys.

The time scale is three months, with any changes being implemented within two years. Evidence is being welcomed from consumers and producers of official economic statistics inside and outside Government.

The review will examine all economic statistics, but particularly parts of the national accounts where problems have arisen, as, for example, the residual error shown in income and expenditure estimates, the discrepancy between national and financial accounts for particular sectors, and the large balancing item in the balance of payments.

The cross-party Treasury and Civil Service Committee said in its budget report in May that it regarded "the problems of official statistics as sufficiently serious to warrant a thorough review." Consequently, the members of parliament proposed an investigation with a view to improving the reliability of the figures.

In its response published yesterday the Treasury said it shared the committee's concern about the quality of national accounts statistics. In announcing the review, it noted "the related issue of minimising the burden on those who provide statistics." This qualification is significant since it implies that there will not be a wholesale reversal of cuts.

The four-strong review team will be headed by Mr Stephen Pickford, head of the Treasury's economic briefing division.

EC groups show strong interest in Manchester light rail plan

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

MORE THAN 100 serious inquiries – including some from other European Community countries – have been received from companies interested in designing, building and running Britain's first city centre light rapid transit (LRT) system in Manchester.

The companies will be required to form consortia which can offer the broad range of constructional and operational skills needed. Up to eight consortia are expected to bid for the contract, worth £50m, in the first stage of the process in the autumn.

Two or three will go forward to the next stage of more detailed submissions next spring. The final choice is expected in autumn 1989.

Design and construction will take two years, with the first LRTs running by early 1992.

Design will be more technical than concerned with appearance. The Greater Manchester Passenger Transport Authority and Executive, which will award the contract, yesterday revealed the LRT's name – Metrolink – and showed off its orange, grey and white livery.

The consortia will be given technical and operational guidelines for the design work, but the result will have to conform to the style unveiled yesterday.

A full-sized mock-up will be built for disabled people to try, and will later be set up in the city centre for future passengers to examine.

The LRT will have special train/trams which will run on ordinary railway lines carrying people between the suburbs and the city and then carry on through the city centre on grooved tracks laid into the road. The system will link the Manchester railway termini for the first time since they opened more than 100 years ago.

Index may show slower growth

BY RALPH ATKINS

CYCLICAL INDICATORS for the UK economy may be consistent with a slowdown in economic growth this year, the Central Statistical Office said yesterday.

The longer leading index, which is designed to indicate turning points in activity about one year in advance, showed no change in May compared with the previous month.

However, the April value of the index has been revised to show a fall compared with March. This continued the decline seen since the middle of last year.

The shorter leading index, looking at turning points six months ahead, also declined in April.

The CSO said recent values of the indices are subject to revision and any interpretation remains provisional.

Managers' charter idea comes under further fire

By Michael Skapinker

MR TOM PETERS, US co-author of the best-selling management book, In Search of Excellence, yesterday launched a withering attack on British plans to create a national qualification of chartered manager.

Mr Peters told a conference in London that the plan to create a professional institute of management "is probably the least sensible idea I have ever heard."

He said that the improved performance of British companies was the result of their increased flexibility, which could be endangered by what he called "the rigidity of professionalism and credentialism."

"We are in an era where we need to be flexible. All professional societies eventually degenerate and deteriorate into little collectivities that protect their own backs," he said. He said that companies should address themselves instead to continuous learning for all employees.

Mr Peters' remarks follow similar criticism earlier this month by Mr John Constable, the co-author of a report calling for an improvement in management education. Mr Constable described the chartered manager qualification as a "solution for the 19th century rather than one for the 1990s."

Mr Bob Reid, chairman of the Council for Management Education and Development, which is drawing up the plans for a professional institute, told yesterday's conference that the chartered manager qualification was still being discussed and had not yet been finalised.

Mr John Butcher, junior minister for industry and consumer affairs, said that it was up to employers to decide what sort of qualification was needed. "The Government will not dictate where you go from here," he said. His comments follow reports that Lord Young, the Trade and Industry Secretary, was in favour of the chartered manager qualification.

Mr Butcher added that, while the Government was certainly prepared to consider the infrastructure implications of the increased demand for postgraduate management courses, "it would not be right for us, even if we had the desire and means to do so, to finance this. As with other forms of continuing education and training, it most be for those who appropriate the benefits – companies and students – to pay for the necessary provision."

Rolls Royce buys second industrial enterprise

By Lynton McLain

ROLLS-ROYCE, the aero-engine maker privatised last year, has made its second industrial acquisition in just over a year, in line with the policy of the board to diversify.

The company has purchased a project for automated manufacturing using computerised pictures from the receivers of Reflex Automated Systems and Controls.

Reflex was set up by a venture capital group in 1985, but went into receivership in April this year.

Rolls-Royce was already involved with Reflex as part of a consortium developing the project for a new generation of automated manufacturing control systems.

Reflex was working on a project within the consortium, called Cimpics (computer integrated manufacturing through pictures).

This was to provide computerised control and scheduling systems with the aim of improving efficiency in manufacturing companies. Rolls-Royce has acquired, for an undisclosed sum, those assets of Reflex Automated Systems and Controls that are relevant to the Cimpics project.

The Reflex development team is to continue to operate from Crawley, Sussex, under the Reflex trade name as a wholly-owned subsidiary of Rolls-Royce and under a new board.

Last April, Rolls-Royce agreed to purchase the nuclear interests of Foster Wheeler Power Products, which made specialised nuclear components for Rolls-Royce and Associates, the company which makes the reactors for Royal Navy nuclear submarines.

Hurd promises shake-up in broadcasting system

BY RAYMOND SNODDY

MR DOUGLAS HURD, the Home Secretary, last night suggested that the BBC television licence fee, presently paid by every viewer, should not be regarded as immutable. He also called into question the future role of the Independent Broadcasting Authority, which regulates the commercial channels.

In a broad review of Government thinking on the future of broadcasting, he promised that forthcoming legislative proposals would be imaginative and might include "a quality threshold" for commercial broadcasters, embodied in a legally enforceable contract.

Mr Hurd was speaking to the Coningsby Club, whose members are Oxford and Cambridge educated younger Conservatives. He said that as more and more channels became available to the average viewer, it would become "less and less defensible that he has to pay a compulsory licence fee to the BBC, regardless of the extent to which he watches its programmes."

The emphasis placed on subscription by the recent Peacock Committee report on the financing of broadcasting, Mr Hurd said, was right "and I am sure that this is a direction in which the BBC should move."

The industry considers it unlikely, however, that a replacement for the licence fee, which is now indexed to retail prices, will be dealt with in the planned 1989/90 Broadcasting Bill. It is thought more likely that the issue will be one for the mid-1990s.

It also became clear last night that the Government is considering the possibility of a separate commercial news franchise – something likely to be welcomed by Independent Television News, which is a subsidiary of the independent companies.

Mr Hurd said a fifth commercial channel was not only technically possible but something against which it was difficult "to imagine any substantial argument."

He indicated that the Government was considering a lighter form of regulation for commercial television, backed by quality contracts and obligations on the provision of news and regional programming.

"Is it necessary in the interests of standards to continue the detailed scheduling arrangements now conducted by the IBA?" Mr Hurd asked.

The Home Secretary also questioned whether transmission might not in future be separated from the provision of programmes – a thought apparently drawn from Peacock proposals for a single transmitter authority broadcasting both BBC and ITV programmes.

Mr Hurd reiterated his view that the night hours should not be regarded as "the inevitable possessions" of those who broadcast on the frequencies during the day."

"Here is good scope for subscription – people would buy programmes which would be loaded on to their sets while they slept and received by them whenever it suited," the Home Secretary said.

Mr Hurd made it clear that the white paper setting out the Government's thinking on broadcasting, expected this summer, was still months away. Indeed, there are growing indications that it might not be published until the spring.

ITN modernisation, Page 13

Rise in construction output is forecast to last 18 months more

BY ANDREW TAYLOR

THE RISE in British construction output is likely to continue for another 18 months, according to a forecast published yesterday by the National Economic Development Office.

Nedo's joint forecasting committee for building and civil engineering said output was expected to rise by 8 per cent this year. A further 2 per cent rise was forecast for 1989. Output in 1990 was expected to remain static.

Last year, output rose by 8.5 per cent to more than £34bn, the highest level in real terms for 15 years. Last year's increase was the highest since the mid-1960s.

The forecast challenges fears that last autumn's stock market crash might cause construction output to peak this year and decline in 1989.

Nedo says a continuing rise in commercial orders, together with work on the Channel tunnel, has led to a revision in its forecasts. It now expects the end of the current construction boom to be delayed until 1990.

It expects commercial construction, mostly of offices and shops, to remain the fastest growing of the construction sectors during the next two years. Orders have, it says, been rising at an unprecedented level and commercial output is expected to rise by 20 per cent this year and by 8 per cent in 1989.

Private housing output is expected to rise by a further 7 per cent this year after last year's 10 per cent increase. Nedo is more cautious about the outlook for 1989 and 1990, when output is forecast to decline by 3 per cent and 5 per cent. It says that the forecast fall accords with a less buoyant outlook for the economy at the end of the decade.

Private industrial construction is forecast by Nedo to increase by 14 per cent this year, including work on the Channel tunnel. The orgainisation says prospects for industrial investment beyond this year look better for plant and machinery than for buildings.

It therefore forecasts that industrial construction will remain static next year and decline by 3 per cent in 1990.

Cadbury Schweppes increased their European soft drinks profits by 59%. They started by helping the market go dry.

That's dry as opposed to sweet; light and sophisticated as opposed to fizzy. In short, 'adult' soft drinks.

The reasons for this market shift are all wrapped up in the current emphasis on healthy living: cutting down on alcohol, cutting down on sugar etc. (but, for a soft drinks company with its top screwed on, no reason for cutting down on profits). Cadbury Schweppes simply repositioned existing brands that matched changing tastes and introduced a totally new dry range.

Uncommon Marketing.

The Common Market is becoming a reality. 1992 will herald the arrival of a formidable market of over 320 million thirsty consumers. We have prepared for that opportunity with a strategy that treats Europe as one entity but still allows us to recognise and cater for individual local needs.

Two highly successful examples of this strategy, developed by our local management and franchised bottlers, are Schweppes Tonic Water and Canada Dry. These classic old mixers are now seen as classic new straight drinks in many parts of Europe. In fact the Spanish market now consumes more Tonic than the British.

New product development has also been important. Sophisticated palates in France and Italy were specially catered for by the introduction of two subtly different, dry ranges. Ranges that have become so de rigueur, that our market share has increased significantly.

Uncommon Profits.

Increased manufacturing efficiency has freed funds for higher marketing investment. As a result, as tastes have grown up in continental Europe, so have beverages profits. Last year, through marketing efforts and the acquisition of Canada Dry, they exceeded £31m, a 59% increase on the previous year. And with the preparation complete and ready for 1992, the taste can only get sweeter (unlike our products).

But this isn't just a European success story. Indeed it might be called an international best seller. In the words of Chief Executive Dominic Cadbury: "Global brands require strong local management and this combination grew our earnings per share by 33% last year."

Cadbury Schweppes

MANAGEMENT PROVEN IN THE MARKET PLACE

Ulster police chief announces his retirement

BY KIERAN COOKE, DUBLIN CORRESPONDENT

SIR JOHN HERMON, the Chief Constable of the Royal Ulster Constabulary, has announced his intention to retire by the end of next year. Sir John has been head of Northern Ireland's police force for the past nine years.

"I would say in all probability I will retire from the RUC in 1989 but I will not give an exact date," Sir John said yesterday. His position is regarded as the toughest job by far in the British police.

The RUC is now one of the most highly trained and well equipped police forces in the world. It has more than 10,000 members and a budget of more than £1m per day.

Sir John has been a highly controversial figure in Northern Ireland, admired as a tough "no nonsense" policeman but frequently accused of high handedness and of interference in local politics.

Allegations that members of the RUC followed a "shoot-to-kill" policy in parts of Northern Ireland in the early 1980s have dogged Sir John's term in office. He said yesterday that a decision would be made "within days" on whether to take disciplinary action against RUC members arising from incidents surrounding and since the shoot-to-kill allegations.

Sir John said he was now studying a report prepared by Chief Constable Charles Kelly of the Staffordshire Police on whether or not RUC officers had attempted to pervert the course of justice.

Earlier this year relations between London and Dublin were severely strained after Sir Patrick Mayhew, the British Attorney General, announced that it would not be in the public interest to prosecute RUC officers said to have been involved in a perversion of justice.

Sir John is credited by many with standing up to a campaign of demonstrations and intimidation by Protestant loyalists which followed the signing of the 1985 Anglo Irish agreement.

His tenure in office has also coincided with a period of so-called "Ulsterisation" of security in Northern Ireland, under which the RUC has taken on the primary role in trying to maintain order in the province.

Grand Met in £27m leaseback deal for trucks and trailers

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

GRAND METROPOLITAN Brewing yesterday announced what is believed to be the UK's biggest ever sale and leaseback deal for physical distribution equipment.

The deal, worth around £27m, covers 500 trucks, 280 trailers and 800 lift trucks. It reflects a growing trend towards leasing in the distribution industry.

Grand Metropolitan said its trucks and trailers would be bought by Ailsa Truck Finance, the financial services arm of Volvo Trucks (Great Britain). Ailsa will replace the fleet with new Volvo vehicles over the following five years.

The sale and replacement programme is worth £22m.

The lift trucks will be bought by Barlow Handling, the UK distributor for Hyster fork lift trucks, and will also be replaced over five years.

This part of the deal is worth £5m.

Grand Metropolitan's move to leasing followed an unusual tendering process in which the major suppliers of commercial vehicles and lift trucks were given a joint presentation on the company's requirements.

They were then provided with a schedule of existing vehicles and a specification of required replacements, and asked to tender within tight guidelines.

Mr Roger Young, Grand Metropolitan's group director, said the company expected to cut its £40m a year distribution costs by "several million pounds."

Mr Young said the deal would provide Grand Metropolitan with an immediate cash injection, while increasing capital flexibility and removing non-earning assets from the balance sheet.

"More and more people are coming to realise that distribution is part of the total business proposition."

"It is a way of adding value rather than simply a cost. It is an area which has been neglected, but we are going to see more of these deals," he said.

Mr Barrie Cload, chief executive of Ailsa Truck Finance, said the deal was "another major sign of the growing momentum behind the shift from direct purchase to leasing by companies seeking to acquire and operate vehicles in the most cost effective way."

A recent survey indicated that around 18 per cent of lift trucks in use in the UK were leased, while the owners of a further 46 per cent of trucks were considering moving to leasing. The position in the truck industry is thought to be about the same.

ITN plans £5m modernisation

BY RAYMOND SNODDY

INDEPENDENT Television News is planning to spend an extra £5.25m in the coming year, most of it on new technology including electronic news gathering cameras which can be operated by one person.

These will be used in all except potentially dangerous situations and those where urgency is an issue.

The company, a jointly owned subsidiary of Britain's 14 regional independent television companies, will also be buying remote-controlled studio cameras as part of its £45m 1988/89 budget.

Mr David Nicholas, ITN's editor and chief executive, said yesterday the introduction of new services such as Super Channel News had cut the overall cost of production at ITN from £120,000 an hour to just over £60,000.

He added that ITN would be holding talks to see whether it might provide a service for Mr Rupert Murdoch's planned satellite channel Sky News.

ITN also said yesterday that it had sold its first documentary aimed at the overseas market to Dutch television and would be looking at the possibility of more such special productions branching out of its basic news output.

Fierce fight expected for oil licences

By Maurice Samuelson

DEMAND for oil rights in the forthcoming 11th round of offshore licensing will be highly competitive, Energy Minister Mr Peter Morrison said yesterday.

Some 200 licensing blocks are expected to be offered to the oil industry in about three weeks. The blocks are in the northern and southern parts of the UK sector of the North Sea and around Shetland and will include "infill" areas adjacent to existing oilfields. The area offered will be half as big again as that in the 10th licensing round a year ago.

Mr Morrison said the Government would look carefully not only at oil companies' proposals but at their recent performance on the UK continental shelf.

Emphasising the need for increased technological expertise in tapping the oil reserves, he said the present "surge of confidence" could never have been achieved without oil companies' adopting new technology.

He was speaking at the launch of Tigress, a £7m computer software project for improving the evaluation and prediction of reservoir performance. Tigress (integrated geoscience and reservoir engineering software system) is funded jointly by industry and the Government.

Pension fund management fees 'under half US levels'

BY BARRY RILEY

BRITISH PENSION funds pay much less than half the level of fees to outside investment managers incurred by their US counterparts, according to the first survey of UK pension funds by the US consultants Greenwich Associates.

However, the consultants argue that hidden costs are being incurred by the UK funds, and they would do better to accept higher direct fees while insisting that backdoor charges are eliminated.

"The managers are not making enough money on disclosed fees to produce the returns the clients are anticipating," said Mr Rodger Smith, the Greenwich partner in charge of the survey.

Greenwich interviewed officials at 350 large UK pension funds (defined as having assets of £50m or more) last April. The aggregate assets of the funds were £1.55bn, about three-quarters of the industry total.

In a preliminary or "flash" report, the consultants disclose that the fees paid to all outside investment managers average 18.5 basis points (0.185 per cent). But the median level – that is, the level which half the funds are above and half below – is only 13 basis points.

In the US the average pension fund fee for active management is closer to 50 basis points, and in addition the funds pay 5 or 10 basis points for custody, a service which is usually included at no extra cost by UK managers. Perhaps because of these high costs, increasing numbers of US pension plans are using passive, or index matching, managers which charge only about 10 basis points.

However, some UK managers are now pressing for higher percentage fees in the wake of last year's stock market crash which has reduced fund managers' incomes. In addition, various extra or hidden charges are imposed. For example, there are often additional charges on deals in foreign securities, and managers can receive benefits in exchange for "soft" commissions paid by client funds.

According to Mr Rodger Smith, pension schemes should be willing to pay higher fees, on the basis that extra returns can be measured and assessed.

The Greenwich survey also suggests that pension scheme officials are low paid compared with their US counterparts. Total compensation (salary plus bonus) ranges from £41,000 in the biggest (£500m-plus) funds to £27,000 in the smaller schemes. The overall mean is £32,700.

According to Mr Smith, such pay levels are not likely to attract executives of a calibre commensurate with the importance to companies and the country at large of effective management of the enormous assets tied up in pension schemes.

In the US the typical pension plan official received just over $90,000 in 1987, according to the similar Greenwich survey of the US corporate pensions industry.

London tops survey of business locations

LONDON is Europe's cheapest business location, despite sky-high property costs, according to a survey.

Tyzack Turner, an executive recruitment company, has worked out an index designed to find the most attractive European city in which to set up and run a service business.

It takes into account cost of living, personal tax, office overheads, property costs and direct employment costs.

London is the cheapest city, followed by Copenhagen and Amsterdam, with Zurich the most expensive.

Paris, Frankfurt and Brussels score in the middle range of the cost index.

Clive Wolman examines the effects of this week's European Court tax ruling on value added tax

VAT stays the same — but only for some

THE EUROPEAN Court ruling that the British Government must impose value added tax on construction, fuel, water and other services supplied to companies would have no effect at all if VAT was a pure tax on value added.

The most distinctive feature of VAT is its cascading effect on each stage of the production and distribution chain.

Any change of the sort proposed by the European Court, which affects VAT levied at an early stage in the chain, should be neutralised automatically at the next stage without affecting the final consumer.

Thus, as a result of the change, a construction company will have to charge VAT on the factory it builds for, say, a vehicle manufacturer, just as a components supplier charges VAT on the parts it sends.

The manufacturer will then recover from Customs and Excise the full value of the VAT payment *on the factory*, while itself charging VAT on the value of the vehicles it sells to the wholesaler. The difference between its VAT charges and recoveries reflects the value it has added – and that will not be affected by the change.

Similarly, companies that sell zero-rated products, such as supermarkets selling food, can reclaim any VAT they have had to pay without then charging VAT to the final customer.

Thus the only difference that Tuesday's ruling makes to the VAT paid by companies will be a few minor changes in the timings of their VAT *payments* and recoveries – unless they have to deal with a third VAT category, tax-exempt supplies.

Those include most, but not all, forms of financial services, such as banking, insurance and pension funds, and private medical and educational services.

The ruling may also affect holding companies if they supply head office services, typically legal and treasury services, without charging their operating subsidiaries.

Like supermarkets, banks and insurance companies do not have to charge VAT on most of their services to customers. But unlike supermarkets, they cannot recover the VAT they have paid on the supplies they have bought, for example their computers and office rental payments.

Property companies also fall into the VAT-exempt category, and would have been hit hard by the new ruling through having to pay VAT on their construction costs. However, the Government is to allow them to charge VAT on their rental payments and to recover the VAT on their construction costs.

That concession accounts for most of the reduction in the anticipated additional VAT revenue to the Government from the change from £425m in a full year to £160m.

It will result in no extra costs for anyone except banks, insurance companies, private hospitals or schools that are tenants of property companies. They will be unable to recover the VAT on the rentals. Some private health insurance agencies estimate that the change might mean an extra £10 a day on private hospital charges.

Tax law normally allows companies to pass on to their customers any VAT charges resulting from changes in the imposition of the tax, unless the contract between the two parties explicitly rules it out.

However, the extent to which property companies can pass on the VAT charge to financial institution tenants will depend not only on the terms of their leases but on their overall bargaining strength.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY-Indices of industrial production, manufacturing output (1980=100): engineering orders (1980=100): retail sales volume (1980=100): retail sales value (1980=100): registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unemployed	Vacs.
1986							
4th qtr.	110.4	106.8	94	126.5	194.3	3,141	213.0
1987							
1st qtr.	111.1	106.2	93	126.4	186.9	3,073	210.4
2nd qtr	112.1	108.4	94	129.3	165.9	2,965	226.1
3rd qtr	112.6	111.2	92	131.8	171.8	2,827	241.2
4th qtr	115.0	112.5	93	133.4	210.8	2,658	262.1
July	113.1	110.2	94	131.0	173.6	2,876	235.2
Aug.	114.0	112.2	96	132.1	171.0	2,829	236.9
Sept.	112.5	111.1	94	132.0	170.8	2,772	246.6
Oct.	114.7	113.0	92	133.0	180.3	2,712	261.4
Nov.	115.0	112.7	93	133.6	186.2	2,649	268.2
Dec.	115.2	112.8	93	133.5	244.9	2,614	256.6
1988							
1st qtr.	114.1	112.5	94	136.2	173.3	2,594	247.6
Jan.	115.0	113.8	93	134.9	176.0	2,565	249.5
Feb.	112.6	110.9	94	135.2	168.5	2,533	247.9
Mar.	114.6	112.8	94	136.5	175.1	2,504	245.5
Apr.	116.3	114.8		136.4	180.4	2,453	253.7
May				136.7		2,416	255.5

OUTPUT-By market sector: consumer goods, investment goods, intermediate goods (materials and fuels): engineering output, metal manufacture, textiles, leather and clothing (1980=100): housing starts (000s, monthly average).

	Consumer goods	Invest goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1987							
1st qtr.	107.0	100.2	117.9	102.4	114.5	102.0	17.5
2nd qtr	110.2	101.3	118.0	104.2	120.0	104.7	20.6
3rd qtr	111.7	104.6	118.6	107.7	120.9	105.5	19.5
4th qtr	113.3	107.8	119.0	110.2	121.7	105.3	17.0
July	112.3	102.9	118.7	106.0	121.0	107.0	20.9
Aug.	113.4	104.3	119.4	109.0	123.0	106.0	17.9
Sept.	112.5	105.5	117.8	106.0	119.5	105.5	22.1
Oct.	113.2	106.7	119.4	109.0	122.0	106.0	18.0
Nov.	113.4	107.2	120.1	110.0	120.0	105.0	18.5
Dec.	113.4	109.5	118.4	112.0	118.5	104.0	14.2
1988							
1st qtr.	113.6	104.5	118.7	107.6	126.1	104.0	19.5
Jan.	114.4	103.7	120.4	106.0	127.0	106.0	18.2
Feb.	112.3	103.4	116.8	105.0	122.0	104.0	20.3
Mar.	114.0	105.7	118.8	109.0	119.5	102.0	21.0
Apr.	112.0	111.4	120.0	113.0	123.0	103.0	19.7

EXTERNAL TRADE-Indices of export and import volume (1980=100); visible balance; current balance (£m): oil balance (£m): terms of trade (1980=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
1987							
1st qtr.	120.6	128.6	-1,211	-780	+1,159	100.4	27.04
2nd qtr	125.5	141.1	-2,317	-900	+1,016	100.4	34.36
3rd qtr	130.6	151.1	-3,100	-806	+906	102.7	34.81
4th qtr	124.8	152.5	-2,908	-1,282	+1,078	102.9	44.33
July	130.1	145.5	-881	-253	+207	103.3	34.91
Aug.	137.0	154.6	-1,424	-687	+359	102.5	34.86
Sept.	124.1	140.7	-805	+43	+310	100.9	34.81
Oct.	131.5	148.4	-832	-853	+304	103.7	41.40
Nov.	125.4	154.2	-1,056	-430	+338	103.7	41.28
Dec.	137.1	154.9	-1,010	-441	+346	104.2	44.33
1988							
1st qtr.	126.0	148.3	-3,700	-1,900	+861	104.7	44.64
Jan.	126.4	152.5	-1,472	-872	+356	104.9	43.09
Feb.	122.6	147.4	-1,282	-782	+311	104.4	42.98
Mar.	128.1	146.0	-885	-335	+213	105.3	44.54
Apr.	124.2	148.8	-1,125	-625	+300	100.9	47.04
May							48.83

FINANCIAL-Money supply M0, M1 and M3 (three months' growth at annual rate); bank sterling lending to private sector; building societies' net inflow; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank lending £m	BS inflow £m	Cnsmr. credit £m	Base rate %
1987							
1st qtr.	1.2	20.0	20.3	+6,733	1,465	+977	10.00
2nd qtr	3.3	20.7	22.2	+3,554	1,804	+1,088	9.00
3rd qtr	8.1	23.3	21.7	+11,806	1,211	+874	10.00
4th qtr	7.0	23.8	26.1	+11,185	3,007	+345	8.50
July	7.7	34.5	24.2	+4,531	847	+277	9.00
Aug.	7.1	22.5	21.0	+2,851	857	+250	10.00
Sept.	9.5	19.5	21.4	+4,324	197	+347	10.00
Oct.	6.9	25.7	23.2	+2,983	512	+340	9.50
Nov.	7.1	23.2	21.0	+3,276	1,126	+357	8.50
Dec.	7.4	11.8	21.9	+4,987	1,369	+349	8.50
1988							
1st qtr.	2.4	9.1	11.3	+12,838	3,061	+1,035	8.50
Jan.	3.7	1.0	7.0	+5,386	900	+289	8.50
Feb.	1.0	2.0	9.9	+2,549	1,108	+321	9.00
Mar.	1.5	24.9	17.7	+4,901	1,089	+436	8.50
Apr.	6.6		22.1	+5,087	1,576	+276	8.00
May							7.50

INFLATION-Indices of earnings (Jan 1980=100): basic materials and fuels: wholesale prices of manufactured products (1980=100); retail prices and food prices (Jan 1987=100): Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100)

	Earnings*	Basic matls.*	Whsale. mnfg*	RPI*	Foods	Reuters* cmdty.	Sterling
1987							
1st qtr	192.0	129.8	149.3	100.3	100.5	1,600	69.9
2nd qtr	196.0	126.7	150.5	101.9	101.3	1,608	72.5
3rd qtr	202.0	131.0	151.6	102.1	100.3	1,647	72.7
4th qtr	206.0	129.4	152.2	103.3	101.7	1,662	74.9
Aug.	201.6	121.3	151.5	102.1	100.7	1,655	72.5
Sept.	201.6	131.1	152.0	102.4	100.4	1,653	73.1
Oct.	203.4	130.0	152.6	102.9	101.1	1,662	73.8
Nov.	207.0	131.4	152.2	103.4	101.8	1,682	75.4
Dec.	210.3	125.1	153.7	103.3	102.4	1,707	76.5
1988							
1st qtr	208.9	133.8	154.2	103.7	102.5	1,747	75.3
Jan.	206.9	135.0	154.6	103.3	102.0	1,757	74.5
Feb.	206.7	134.0	155.1	103.7	103.6	1,755	74.3
Mar.	212.1	131.4	155.0	104.1	103.0	1,734	76.3
Apr.	212.6	132.4	157.0	106.0	104.4	1,736	76.2
May		135.0	157.4	106.3	104.7	1,778	78.4

*Not seasonally adjusted
†Net changes in amounts outstanding, excluding bank loans.

ARTS

National Gallery/David Piper

Avant-garde Russian taste

One of the earliest pictures: "La Proposition Embarrassante" by Watteau

Thirty-eight *French Paintings from the USSR* have moved into the National Gallery in London (until September 18). In response, 38 paintings from the National will travel to Russia shortly. Institutional loans out on this scale are a departure from the National's previous policy. This one is said to have been prompted by Mrs Gorbachev after her London visit in late 1984, though for the Russians such loans out are certainly no novelty. Comparable ones from the museums involved here – the Pushkin in Moscow, and the Hermitage in Leningrad – have travelled to the US, Australia, Japan, Switzerland, Italy, Canada, and India during the last decade. It is sponsored by BP, and entrance is free.

Saturation problems will surely arise (as they did in the recent Academy showing of the Thyssen collection despite a hefty entrance fee). But that is now a fact of life; the experienced viewer learns to make his visits at the least popular times. The show is where one was wont to find Rubens and Van Dyck, very handy from the North Entrance, in Orange Street, the galleries now elegantly re-clad in plain soft dove-grey.

Nineteen paintings are from the 18th century (though extending to Ingres); 19 from the late 19th and early 20th century. All the early ones however are hung in the first of the three rooms, and although aware of the show's subtitle – Watteau to Matisse – the first impression may dampen expectations (whetted no doubt by the very early Picasso widely used in the promotion of tbe exhibition, the "Harlequin and his Companion"). That first room: not perhaps what one had come for? a hit dim even?

Do not however rush it. To the eye once tuned to the lower tone, some masterpieces will reveal themselves. The two earliest are indeed the Watteaus, both exquisite variations on one of his usual themes, the way of a man with a woman – or perhaps just as likely, *vice versa*. In "La Boudeuse" (title doubtful) speculation as to the relationship of the two protagonists could be endless. The expression of the woman's features, of the delicate retraction of her black skirt from any contiguity, is ineffable.

In "La Proposition Embarrassante" (title no less question-begging), there is music: three figures seated or lying in the landscape, one playing a guitar; two figures standing, most eloquently juxtaposed; and through the whole composition pervades that most delicate lilt of almost liquid line and glowing broken colour, a mood of which Watteau was the supreme master.

After that the Bouchers may seem rather routine, but note the very unusual "Virgin, Child and Infant St John" in a style of high rococo camp. Diderot wrote severely about that, but admitted he would not mind owning it.

In this first room one may feel that some paintings are a bit – certainly not dirty – but perhaps "under-cleaned." The work of Old Father Time as well as that of the artist has been respected. In the Vernets and the Hubert Roberts, a balance seems to have heen snstained very harmoniously, and the four shown demonstrate the subtleties of light and tone and colour that those often maligned artists could achieve at their best in compositions that so often can fall into the category of routine "furniture pictures."

There is a great Chardin, a large scale still-life declaring forthrightly that the tools of the trade – palette and brusbes, architectural drawings, portfolios and so on, with the hlessing of a central statuette of Mercury, patron of the arts – can form the caste of a composition ranking as major art.

There are some intersting contrasts. Greuze, in 1763, asserting that heroic tragedy could find a suitable evocation at the deathbed of an old man surrounded by his family in a quita modest bourgeois setting; David, in 1783, announcing in his Andromache mourning over the rigid, naked corpse of Hector, the austere gesture and the tragic declamation of heroic neo-classicism. Ingres concludes with a flawlessly painted Raphaelesque but almost painfully smug Virgin (a complacent Roman matron) with the Host (light years away from Boucher), and a superbly uncompromising portrait of Count Guryev, the image of immaculate tailoring, of effortless if self-consciously male superiority (painted on his honeymoon in Italy in 1820).

This first room illustrates the penetration through the 18th century of French taste amongst sophisticated Russians, evidenced not least by that difficult lady but discerning patron, Catherine the Great, who relied much on her contacts with leading French intellectuals like Diderot and Grimm. Late in the 19th century, a very different kind of patronage was exercised by two wealthy Russian merchants, buying from Paris work that even the French had yet to learn to love.

Sergei Shchukin was the elder (born 1854), but was active huying in the 1890s first Monet, and then Cézanne and Gauguin (of 16 by the latter three shown here: two of the mysterious frieze-like exotic idylls from the first Tahiti visit, and the other a sultry self-portrait head). Shchukin's Impressionists here include one of the famous Monet series of Rheims Cathedral, and a Sisley of a village on the Seine in 1872 which, while traditional in composition, is redolent of the essential *joie de vivre* of early Impressionism, alive with light and sun and fresh air.

With the 1880s Renoir of "Girls in Black," we are already moving on from Impressionists. Ivan Morozov, born 1871, came in close contact with French art, artists and dealers around 1900. By 1913 ha owned some 140 modern French paintings, including 17 Cézannes. Shchukin also loved Cézanne, and three out of the four shown (all late ones) are his, though the most satisfactory one was Morozov's – an unusually sumptuous still-life of oranges, lemons and apples.

Two ont of three Picassos shown were Morozov's – the harlequin pair of 1901, and the famous Cuhist portrait of the dealer Vollard, 1909-10. That is huilt up of planes of dark grey, with hints and glints of green – hut, central, in a light sallow tone, identifiable elements of Vollard's features coalesce. It is a most interesting and successful compromise, a satisfactory abstraction from his sitter hnt also preserving what contemporaries acclaimed as a remarkable likeness.

The bluff portrait of Dr Rey, set four square and so very sane in his hlue coat against the orange swirls on a dark green background by Van Gough (this was Shchukin's) illustrates the very different kind of portraiture that Van Gough hoped wonld prove to be the "painting of the future," "comprehensible to the general public."

It seems though to have been Shchukin who went overboard for the more violent revolutionary statements. The Picasso shown here from those he owned is a very famous object "the Dryad," or nude in the forest – a female nnda transposed into an elemental threat, as if some mutation were evolving – well, in the direction of Cubism in the course of a determined affair with African tribal carving. It is in all the books; the shock of its actual presence here springs from the huge scale, demanding the end wall itself. The catalogue discerns an element of invitation as well as of threat.

That'a as may be, but as you turn to escape you should bestopped in your tracks hy the sheer happiness and pleasure emhlazoned by the three great coruscations of colonr provided by Matisse. The artist came to Moscow to hang his paintings in the pink drawing room that Shchukin called "the room of Matisse, my fragrant garden;" they are the kind of Matisse, in their scale and exuberance that are hardly to be found anywhere in Britain.

Each is some five to six feet tall. There are goldfishes in a conservatory, stunning red in their gold. There is a blue pot stuffed with arum lilies, iris and mimosa, larger than life. There is Matisse's studio interior; on the wall, part of the sketch for his great "La Danse" is visible; in front of it he has placed a red tripod with a terracotta pot whence trail disorderly vermilion nasturtiums. All very simple if profligate, but needing, as Chardin felt might be helpful to validate his still-life, no longer the presence of a divine patron of high art.

If yon need a tranquilliser before leaving, try the exquisite domestic calm of Bonnard's reflection on the soothing modulations of soft pinks, greens, hlues about a noble back side, in his "Mirror in the Dressing Room."

Strange to think all these modern paintings were nationalised after 1917, and mostly went into a sort of purdah during the years of heroic social realist art until really quite recently, when the Russian people discovered again what Shchukin and Morozov had laid down in the cellars for them.

Nash Ensemble/Almeida

Max Loppert

One of the illuminating features of this year's Almeida Festival schedule has been the series of concerts entitled "Windows on Glasnost" featuring living Russian composers. It's never safe to generalise about anything, let alone the current state of Russian music on just two Nash Ensemble concerts (Friday's and Tuesday's which closed the mini-series). But through the Almeida windows have come gusts of wonderfully bracing air: the experience seemed to be telling a London audience that on the Russian scene there is new excitement and vitality – a new openness to a whole variety of influences coupled with the familiar concern to make each musical encounter a meaningful one for the listener.

Both concerts were admirably programmed to contrast established composers of middle age like Alfred Shnitke and Sofiya Gubaydulina and younger ones such as Vasily Lobanov, Elena Firsova, and Dmitry Smirnov with the sanctified figures of Stravinsky and Shostakovich. The continuity of certain traditions is exemplified in "old Russian" themes and atmospheres revived for new purposes – in last Tuesday's Shnitke's 1985 String Trio, which marries the worlds of Russian church music, Viennese Classicism, and Shostakovich elegy, provided a wonderfully gripping example of the process.

And in the form of Friday's British premiere of Gubaydulina's 1987 *Hommage à T. S. Eliot* for soprano (Rosemary Hardy) and Schubert-Octet forces, the willingness to subject the simplest features and facets of musical language to new examination and investigation received a quite marvellous demonstration. Gubaydulina, as recent British introductions have made clear, is a composer of high-pitched sensitivity to poetic detail, and also a composer with a bold command of form. She has dared to set four extracts of the *Four Quartets* – verses that British composers might well avoid out of respect or over-familiarity – and has found a shape, a sound, and a style for her settings that wholly justify the exercise. Britten's tenor-horn Serenade appears to provide the starting point, in its enclosure of words within different combinations of the basic forces – Gubaydulina's solo horn and string-quintet impingements on the voice are particularly striking. The graphic quality of the vocal imagery and the superfine weighting of words make this a work to be heard, again and often.

On Tuesday the husband-and-wife composer team of Firsova (b. 1950) and Smirnov (b.1948) each made their own fresh impression on us. Firsova's short *Forest Walks*, a Nash commission and world premiere, proposes a crystalline high soprano (Penelope Walmsley-Clark) and Ravel Septet forces for Mandelstam poetry setting. We lacked the words, and had therefore to judge only on generalities, which were exquisitely calculated. In Smirnov's *The Seasons*, soprano, flute, viola and harp take Blake as their text (like Gubaydulina's choice of Eliot, this itself seems indicative of some form of cultural glasnost). One or two moments of unidiomatic word-setting notwithstanding, the sense of musical absorption in the verse that Smirnov sustains across the four songs gave proof of a passionate, original musical personality. Bouquets for the Nash, and for the Almeida.

Janacek in Prague

Andrew Clark

It is tempting to assume that, while Janacek's operas have had to fight for a place in the repertoire of most international companies, they have always occupied a popular niche on home territory. The truth is somewhat different. The Czechs may be proud of Janacek, but he has never been a crowd-puller like Dvorak, Smetana or Czech-language Verdi, and his operas are more difficult to cast: none more so than the title role of *The Adventures of Mr Broucek*, which has just been seen again at the Prague Spring Festival after an absence of 17 years.

The previous Prague production visited the Edinburgh Festival in 1970 with Beno Blachut in the title role – but there is no one of his calibre around today. So Prague has had to borrow Brno's current Broucek, Josef Ververka, who sings with commendable clarity and steady, but uninspired tone, but lacks the sheer vocal and comic panache to dominate the evening. The new production is nevertheless a major success: it tells the story in sympathetic, picturesque terms, it has been lovingly tailored to the music, and it hears the unmistakable authority of the distinguished Janacek conductor *Bohumil Gregor*.

The exact and richly characterised performance he drew from the National Theatre Orchestra swept aside any lingering doubts about the true stature of *Broucek*, and placed it unequivocally in the creative firmament of *Katya Kabanova* and its three great successors, some of whose music and radiant bumanity it so clearly presages. And yet it was not an occasion for appreciating tha jagged originality of Janacek's musical palette: a softer, more entrancing sound world was explored, in which accents and cross-rhythms seemed to grow from a broader musical context. These were conditions under which cast and chorus could project their parts with unforced splendour – and for anyone accustomed to hearing Janacek sung by more starry casts elsewhere in German, English or imitation Czech, the chance to hear the intelligent marrying of word to music in front of a comprehending native Czech audience is a revelation. Several members of the cast were familiar from recordings – Dalibor Jedlicka in the Sacristan-Lunobor-Domsik part, for example – but there were also some promising newcomers such as Vera Novakova in the three Vixen-like high soprano roles, and Miroslav Kopp and Olga Orolinova as the young couple with love music of almost Verdian innocence.

Ladislav Stros's staging made telling vignettes out of each of these characters, hut proved more successful in the crazy moon-world of the first act than the 15th century antics of the second. Vladimir Nyvlt's simple representational set evoked the shadows of old Prague through green sepia projections, street gas lamps and moonlight over *the Vltava*. The moon escapade – a pantomime behind gauze, just this side of kitsch – was treated like a nocturnal exploration of Broucek'a kinky fantasies and Freudian repressions, with Malinka making improper advances, the moon-men dressed as fairies and Pegasus turning into a giant rocking horse. But the staging never broke the bounds of good taste or sound artistic sense, and set standards that make one impatient for the company'a long overdue next tour to the West.

The Woman in Black/Tewkesbury

B.A. Young

Orchard Theatre, the peripatetic company from Barnstaple, is touring with this novel hy Susan Hill, adapted for the stage hy Stephen Mallatratt. It hardly pretends not to be a novel. Before the house lights go down, Grabam Colclough, as an ageing solicitor, Arthur Kipps, stands down centre and begins to read from a bound volume. "It was 9.30 on Christmas Eve," he says in so lack-lustre a voice that a handy actor (Andrew Wincott) behind the stalls joins him on staga and shows him how to instil life into it.

The actor becomes a younger Kipps, and Kipps everything else hut the dog Spider (as invisible as the rabbit Harvey) and tha ghostly woman in hlack, so ghostly that she gets no credit in the programme. He is his own clerk. a waiter, Daly (a friendly man wbo knows the ghost's story), Jerome (Kipps's agent) and Kegwick (driver of a pony and trap), so the evening is more fun for Mr Colclough and for us.

Mr Mallatratt keeps the story to the end, but chills us first with the eponymous woman, in her long black dress and secretive hlack poke-bonnet. She appears at the funeral of Mrs Drablow, an old widow whose death is the reason for Kipps's visit to her sinister seaside abode, Eel Marsh House. Kipps, not knowing this black-draped lady for a gbost, finds her merely interesting, hut Jerome is terrified and has to go bome.

Kipps is frightened too when, despite advice, he spends a night at Eel Marsh House. The woman makes more appearances; strange drumming noises fill the bouse; we hear a pony trap having an accident, followed by women's screams. Tha woman enters through a door we know to be locked. Kipps, braver than I, goes through it, to what seems tha deserted nursery of a six-year-old boy.

Daly gives us the whole tale at the end. The woman in hlack was Mrs Drablow's sister, who went to Scotland to have a bastard baby that Mrs Drablow adopted. The child was out one day with a nursemaid, in a trap driven by Kegwick's father. All three were drowned.

Now, says Daly, if tha woman appears, there will be a fatal accident to a child afterwards. Kipps, who has occasionally mentioned a fiancee, Stella, marries, and his son dies in a fairground disaster; but this is only a kind of postscript. Mr Mallatratt's last act is as rich in clarifications as the last act of an Agatha Christie mystery.

On the other hand, though he takes too long getting his characters into place, the shivers in the first act work well in their way, and there is decent playing under the direction of Nigel Bryant. (A word of praise is due for the sound engineer, too.) Theatre Royal, Plymouth are co-producers. Prudential are sponsors. This week tbe company plays one-night stands in Devon and Dorset, then a week in Cornwall.

The Strangeness of Others/Cottesloe

Michael Coveney

Creating neat links in a chain of urban disorientation is the business of Nick Ward's lushly peculiar new play in the Cottesloe auditorium of the National Theatre. A product of the studio research wing on the Sooth Bank, Ward has followed the unmistakeable promise of *Apart from George*, a condensed, elliptical Fenland domestic tragedy, with an equally fragmented but more diagrammatic, and longer, study in emotional and social dysfunction.

The scene is London, a parched territory of bare boards and concrete exterior (thank you for inspiration, Denys Lasdun) overruled hy a wonderful decorative steel stairway and bridge, designed by Fred Pilbrow, that resembles the red flamingo in Dearborn Street, Chicago. Two musicians, violin and clarinet, occupy this structure, underpinning encounters of rage and desolation with urbanist walls composed by Richard Heacock.

The choric figure of a filthy tramp (Dermot Crowley), who might have emerged from the cardboard settlement just the other side of the National Film Theatre, takes us into the belly of a beast withont a heart, London. We meet two runaway lovers from Liverpool, a prostitute hailing a Member of Parliament, a middle-class punk whose father is the MP and whose uncle, a photographer, offers a job and a roof to the Liverpool boy. There are also a policeman who lives with his mother, takes in lodgers and believes he is normal, and a violently unhappy father and son who have a hold on the prostitute.

These characters and situations, laid out like hits in an assemhly kit, are glued together with some craft and originality, subtler implications left hanging in the overspill of a previous scene, or in the arrival of a shadowy presence. Nick Ward, as previonsly, directs his own play, operating as both a conventional Expressionist in the manner of Elmer Rice (*Street Scene* comes to mind) and a confident cinematic fringe *auteur* like Steve Shill

His bleak and loveless world is inhabited by acting of the highest order. The cast enters the fray in the style of Shared Experience from two right-angled rows of bentwood chairs. Heavyweights David Burke and Philip Voss play the divided brothers with glancingly cruel incisions, John Lynch and Cheryl Maiker fairly explode with lust soon lost in the jungle of the city. Hilary Reynolds as the Northern Irish prostitute is a hrain-scorched development of the girl in *Apart from George*, incestuously harassed, a mind on fire.

A brown envelope of money changes hands in a public place and a photograph is taken. The MP's father makes love to his daughter-in-law (Rosemary Martin, balefully moving). I detect a privileged *angst* in all this, an odd touch, perhaps, of designer despair. But the writing is taut and compelling.

Alastair Muir

Peter-Hugo Daly and Sandra Voe

Arts guide

June 17-23

EXHIBITIONS

LONDON

The Royal Academy. Cezanne – The Early Years 1859-72. A concentrated and illuminating study of the formative period of one of the greatest artists of the 19th century. Although he came to greatness in his middle and later years, his early period is now revealed in all its complexity and contradictnry quality. Eods August 21.

The Royal Academy Summer Exhibition. The 220th Summer Exhibition. Still the largest open exhibition of current painting, sculpture, prints and architecture in the world. The show is a little smaller than usual, but as dense and bizarre as ever, with as many good things to be discovered. Daily until August 7.

Barbican Art Gallery. Art or Nature. A thorough survey of French photography in the 20th century, as part of the "Images de France" Festival. The exhibitioo is especially strong on the great individual photographers of the period, such as Kertesz, Cartier-Bressoo, Brassai and Atget. End July 17.

The Hayward Gallery (two exhibitions). Angry Penguins is a fuscinating study of the group of young painters active in Melbourne during and just after the Second World War. Also: Paintings from the Phillips Collection in Washington. An enthralling selection from one of the great private collections of modern 'imes. Its scope extends from the 16th century to the present day, but its great strength is in Impressinnism and Post-Impressionism – Renoir and Cezanne, Braque and Picasso, Bonnard and Matisse. Both shows until August 14.

British Museum. Ukiyoe – Images of Unknown Japan. This large exhibition, of exquisite quality, brings to us, through the work of the greatest *masters of the wood-block print*, the magical "Floating World" of pleasure and the senses that was the city of Edo (modern Tokyo) in the time of the Shoguns from the 1600s ontil the 1860s, when Japan was closed to the outside world. Until August 14.

National Portrait Gallery. Paolozzi Prrtraits. A small but intriguing show of a body of recent work on a subject thet has fascinated the Scottish sculptor, Eduardo Paolozzi, throughout his long international career. Of particular interest are the self-portraits, and the several working studies of the architect, Richard Rogers. Until August 7.

NETHERLANDS

Amsterdam. Tropenmuseum. The arts and crafts of Indonesia, illustrated with more than 500 objects in bronze, bamboo, textiles and precious metals spanning 2000 years of cultural history. Ends August 21.

Amsterdam. Rijksmuseum (rear entrance). Divine Bronzes (some no more than 5cm high) illustrate the stylistic development of Indo-Javanese religious images from the 7th to the 16th centures and their role in transmitting culture from India and South-East Asia to Indonesia. Ends July 31.

PARIS

Galérie Schmit. French masters of the 19tb and 20th century. Tbe discreetly luxurious three-storey gallery plays host, yet again, to an exhibition spanning e period rich with creativity and diversity. 396, Rua Saiot-Hooorè (42.60.36.36). Closed Sundays and lunchtime. Ends July 16.

Pavillon Des Arts. The magnificence of silversmiths' work in India during the reign of the Moghuls testifies to their love of luxury. Every-*day utensils like scissors, knives,* betel nut and cosmetics boxes are chiselled and adorned with filigree open-work as richly as ceremonial objects and armour. 101 Rue Rambuteao (42.33.82.50). Closed Mondays and holidays. Ends July 17.

Galérie Odermatt-Cazeau. Guillaumin's deep blue of the Mediterranean, framed by green pine trees and orange earth, entices the passer-by into an eclectic exhibition of some 50 works by the masters of the 19th and 20th century. 85 Bis, Rue Faubourg Saint-Honoré. (42.66.92.58) Ends July 30.

Daniel Malingue Gallery. Baltasar Lobo's work is a hymn to the eternal woman. The purity of line of the smooth bronze comes near to abstraction at times, yet the sensuous femininity is always there. 26 Avenue Matignon (42.66.60.33). Ends July 9.

Grand Palais. Le Japonisme. 400 exhibits bear witness to the enthusiasm which swept the Western art world for all things Japanese in the second half of the 19th century. Clnsed Tue (42.56.09.24). Eods August 15.

Chateau de Bagatelle. Count d'Artois' Folly, built in record time in the Bois de Boulogne, has come to life in all its exquisite 18th century splendour thanks to a group of Paris antique dealers. For two weeks lyre-shaped chairs face preciously worked cabinets, and an ensemble of Sèvres porcelain adds the gilded bronze lustre of its settings to the strong colours of a Savonnerie carpet. From 2pm till 6pm. Ends July 3.

UNITED STATES

New York, American Craft Museum. An ambitious show that traces the history of American architecture back to the turn of the century and emphasizes the work of artists like Tiffany, Lawrie and Louise Nevelson who were commissioned to add art to the architecture. Ends Sept 4.

New York, Pierpont Morgan Library. Over 200 items from the life and art of Beatrix Potter show the evolution of the artist and her work. Included are the illustrated letter, discovered only months ago, to Noel Moore that became the basis of Peter Rabbit and the entire sequence of 22 watercolours from The Tailor of Gloucester, lent by the Tate Gallery. Ends Aug 21.

New York. National Gallery (East Wing). To mark the 350th anniversary of the first Swedish colony to the New World, the exhibition covers four Swedish monarchies in the 16th and 17th centuries and shows Sweden as a resplendent and aggressive world power through objects and 100 paintings on loan from the Royal Treasury, the National Museum and the royal collections. Ends Sept 5.

ITALY

Venice, Palazzo Grassi. The Phoenicians, the fourth major exhibition at Fiat's imposing arts' centre on the Grand Canal attempts to give a complete picture of this extraordinary people, who dominated trade in the Mediterranean for over 1,000 years before their capital, Carthage, was finally destroyed by the Romans in 146 BC. Many of the 1,200 objects displayed are extraordinarily beautiful, and the 750-page catalogue, published by Bompiani, is excellent. Until Nov 6.

Venice, Fondazione Cini (Isola di S. Giorgio). Paolo Veronese. An intelligently presented exhibition to mark the fourth centenary of Veronese's death, two-thirds of which is devoted to preparatory studies for his major works in Venice. The last few rooms contain 22 paintings, including several masterpieces lent by US and European Museums. Until July 10.

Rome, Museo Del Folklore. Goethe in Italy. The exhibition includes a mixed collection of objects connected with Goethe's two visits to Italy (1786-1788 and 1790) and gives a vivid idea of the essential equipment for a late 18th century traveller to southern Europe. Piazza S. Egidio. Ends July 3.

WEST GERMANY

Cologne, Romisch-Germanisches Museum. Caesar's Glass, the most important display of Roman glass ever staged. It covers the period from Caesar to Justinian, from the first century BC to the 6th century AD. The 162 pieces are mainly goods from everyday life. The exhibition is sponsored by Olivetti and runs until August 28.

TOKYO

Japan Folkcraft Museum (Nihon Mingeikan), Komaba: Prints by Munakata Shiko and Pottery by Kawai Kanjiro, a special exhibition commemorating the centenary of the birth of the founder of the Japanese folkcraft movement, Soetsu Yanagi. Includes works by the movement's two leading practitioners, Kanjiro Kawai and Shiko Munakata. This superb collection of crafts from all over Japan is housed in the replica of an old farmhouse building which accords perfectly with the unselfconscious beauty of the objects. Nihon Mingeikan, Closed Mondays. Ends June 26.

Tokyo National Museum of Modern Art, Takebashi. René Magritte. Magritte's paintings of dapper little men in dark suits and bowler hats and floating like clouds should appeal to all Japanese "salarymen" who dream of escape from the daily grind. Closed Mondays. Ends July 10.

Goto Museum. Chinese ceramics from the Goto collection. This is one of Tokyo's best small museums, housing an excellent collection amassed by railway tycoon, *Goto Keita*. There is also a pretty, unkempt garden. Closed Mondays. Ends June 26.

VIENNA

Rathaus. Wien 1938. Vienna's city hall is commemorating the Anschluss, the German annexation of Austria in 1938, with a large and courageous exhibition which shows how Austrians reacted to Hitler's march into Vienna, and the eclipse and eventual destruction of the Jewish culture. Ends June 30.

Museum of the 20th Century. First exhibition in Austria of works by Friedrich Kiesler, painter, sculptor, architect and designer who was born in 1890 in Czernowitz, now part of the Soviet Union but once part of the Habsburg Empire and later studied in Vienna before moving onto New York in 1926. Ends June 19.

Messepalast. Imago Mexico. A rich, exotic collection of Mexican art, photographs and graphics from 1900 to 1980. Ends July 31.

SWITZERLAND

Martigny, Fondation Giannadda. From Raphael to Corot. The masterpieces on loan from Sao Paulo's Museum of Art cover a greater stretch of European art than the title suggests. Beginning with a 13th century hieratic Madonna, they continue with Jerome Bosch's obsessive fantasies of Saint Anthony's temptation. There is a moving self-portrait by Rembrandt and a portrait of a Cardinal in his red robes by Goya. There is a Chardin and a Fragonard, while the fashionable chronicler of the Belle Epoque Giovanni Boldini, closes the exhibition. (026) 23978. Open all day. Ends June 26

Saleroom/Antony Thorncroft

Surprise Stradivari record

It was one of those days in the salerooms, with records being set as casually as summer showers. Sotheby's had set the trend on Tuesday evening when in its sale of 19th century paintings it disposed of a vigorous painting hy the French artist Eugene Delacroix, "An Arab horseman at the gallop," for £913,000, almost twice tbe estimate and an auction record for the artist.

It had been sent for sale by the French actor Alain Delon, who had bought it at Sotheby's in 1971 for £49,000. Among other good prices were the £165,000 paid for "Olympus on Ida," three naked goddesses from tha brush of George Frederic Watts, and the £99,000 for a Rosetti chalk portrait of Mrs Howell, the wife of Ruskin's secretary, which had heen estimated at a modest £35,000. "Caged doves" by John Frederick Lewis, a typical Arab scene depicting a maiden obviously as trapped as the bird she pets, sold for £90,200.

But the real surprises came yesterday when in a musical instrument sale at Sotheby's a violincello by Stradivari, made in Cremona around 1698, sold for £682,000, an auction record for a musical instrument. Sotheby's had not hyped the cello because musical instrument sales have met mixed fortunes in recent years. Known as the Cholmondley it was the star of a very successful sale which in the morning session alone totalled a record for this market of £1,658,745, with only 5.5 per cent unsold. A Strad violin, known as the Innes Loder, beat its estimate at £214,500. Both went to private buyers.

Sothebys, in its quest for new profitable sectors, held its first auction of 19th century Spanish paintings in London. It hit a responsive nerve, hringing in £1,944,210, with less than 7 per cent unsold. "A fish merchant" as portrayed by the early 20th century artist Fernando Sotomayor y Zaragoza more than tripled its estimate at £93,500, and a battle scena hy Josa Cusachs y Cusachs went within estimate at £90,200, both to Spanish buyers.

Meanwhile Christie's had some good things in its auction of literary manuscripts, including an unpublished series of ovar 200 letters than the poet Philip Larkin had written to his friend James Sutton when they were both in their late teens and early twenties. They include poems and drawings and are the most important archive of early Larkin likely to emerge about this reclusive man. They were bought for the Brynor Jones Library at the University of Hull, where Larkin was for many years Librarian, for £34,100, within the forecast.

Sean O'Casey's autograph manuscript of *The Plough and the Stars* was on target at £38,500 to Quaritch, while autograph notes by Karl Marx, used subsequently in Das Kapital, went way above expectation at £17,050.

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Anglo-Iranian dialogue

RECENT ANGLO-Iranian talks in London about compensation for damage to each other's embassies, and this week's visit to Iran by a group of British parliamentarians, have inevitably given rise to speculation that Britain may be beginning to budge from its firm refusal to bargain for the lives of hostages held by pro-Iranian activists in Lebanon.

Such suggestions are indignantly denied in Whitehall, and there is no evidence supporting them. Nor is it clear that the British Government stands to gain anything politically from securing the release of the hostages, popular though this would be in itself. On the contrary, if their freedom appeared to have been bought with financial or political concessions it would entail political costs for the government, both at home and abroad.

Abroad, the Government has made a considerable investment of diplomatic effort and political credibility in building up Britain's reputation as the one country with a rock-solid position on this issue. It can be credibly asserted, though it is difficult to prove, that British citizens are safer abroad than those of some other countries because people tempted to take them hostage can have little hope of obtaining concessions in return for their release. The early release of the British passengers on the Kuwaiti aircraft hijacked in April, with no attempt by the hijackers to obtain anything from Britain in exchange, gives some support to that view.

Moral position

At home, in spite of considerable public sympathy for Mr Terry Waite, Mr John McCarthy and Mr Brian Keenan, the Government's position has been broadly supported, and the fact that it was clearly differentiated from the French position has, if anything, reinforced that support. British ministers will have noted, moreover, that Mr Jacques Chirac did not receive the dividend he hoped for from the French electorate for obtaining the release of French hostages.

Britain's moral position may become less comfortable, however, with the passage of time, if no new French hostages are taken and French national interests do not appear to have suffered from the deal struck by Mr Chirac. More voices might then be raised asking whether the British hostages are not being sacrificed to an abstract principle; and there would be the question whether British national interests are best served by a continued absence of relations with two such important, if unattractive, Middle Eastern governments as those of Iran and Syria.

Hindawi affair

Syria has already re-established relations with the United States, having apparently satisfied the US authorities that it is no longer directly implicated in terrorism and that it is doing its best to secure the freedom of the remaining hostages in Lebanon. Britain, more directly offended by Syria's role in the Hindawi affair (an attempt to blow up an Israeli aircraft by planting a bomb in it at London airport), remains officially unconvinced. In the case of Iran, by contrast, it is the US which has the greater emotional trauma to overcome, aggravated by the political fallout from the discovery of the administration's crassly misconceived attempt to deal with Iran in 1985-6.

Syria remains a central factor not only in Lebanon but in the Israel-Arab conflict. Iran remains a country of great strategic importance, a belligerent in the most serious international war now in progress anywhere in the world, and potentially a very important market once the war comes to an end. Iran has a specific agenda of demands to make on Western powers, some purely bilateral, others connected with the Iran-Iraq war. Syria's objective is, apparently, to become the broker of an Iranian *rapprochement* with the West.

In theory British relations with both states should be conducted purely on the basis of those facts. In practice they cannot be, so long as either state is held responsible for the continued detention of British hostages. There is thus a sense in which Britain is obliged to link the hostage issue to the wider agenda, even while insisting that any such linkage is morally unacceptable. The enunciation of a moral principle is a relatively simple matter. Its precise application to the details of interstate diplomacy can be much more complex.

The limits of discrimination

CITIZENSHIP requires full democratic rights, but full citizenship does not end there. There are no good grounds for arguing that special provision to counter the facts of racial disadvantage is illegitimate intervention, and that it may even inflame rather than calm.

Nor does the Thatcher Government argue along these lines. It has in its legislation and its policy stance generally retained and even in minor ways extended what is a bipartisan consensus, based on a Race Relations Act (1976) which renders racial discrimination unlawful, on a Commission for Racial Equality (CRE) which is empowered to promote equality of opportunity and work towards the elimination of discrimination and on a practice within the public sector of encouraging the employment of ethnic minorities.

All this has not yet greatly affected the position of Afro-Caribbean and Asian people. They are twice as likely to be out of work as their white counterparts, they are on average worse housed, are often subject to racial attack, suffer overt and covert discrimination. Even where they have professional or academic qualifications, they can encounter gross discrimination.

Disadvantage

These and other facts of racial disadvantage lie behind the Commission's restatement of its plea to Government, contained in its annual report published earlier this week, to strengthen the provisions of the 1976 Act and to make special provision for black people under the operation of some of its recent legislation because it bears particularly heavily upon them.

The Government cannot escape criticism here. It may have preserved the consensus in law and in many practices, but its rhetoric has often been negative and narrow. The Prime Minister has not repeated her "swamping" aside of a decade ago, but her ministers often appear to conflate the extreme and self-defeating policies of some local authorities with wholly desirable projects in order to condemn both. Nor can the Government escape suspicion that its immigration Act is over-restrictive on the ability of divided black families to reunite in the UK.

It can also hinder by cheese-paring. Section 11 of the 1966 Local Government Act allows local authority spending to counter racial disadvantage. Last year, they spent over £130m, of which government paid £104m. A review now under way will probably propose cash limits, which, depending on their severity, could see a lot of useful local endeavour choked off.

Integration

But in pressing for a tougher Act, and for legislation on housing, education and criminal justice to be changed, the CRE is arguing that particular ethnic minorities be given a range and a depth of special provision which will cut against what should be the consistent flow of policy: to integrate them as far as possible (consistent with private beliefs and customs) in the life of the society. It is essential to punish those individuals and organisations which seek to stop that integration through racism: it is essential to take steps to put ethnic minorities on as much of the same footing as possible with others. But the UK is a country whose social order has been formed by the fissures of class rather than race. Many working class people often regard themselves as excluded, or self-excluded, from professional and other networks. In these conditions positive discrimination on race grounds has clear limits.

Business, even in a climate of increasing "social responsibility" which many companies trumpet, has still done too little. The CRE, already empowered to intervene, should be given more resources to investigate, expose and enforce. The Government can be attcked for having deepened the crisis for the poor; for having increased the size of an urban underclass; for having been too slow to address the problems of unemployability among the unskilled, the young and elderly. But that has happened to black and white alike: and if they are to be given the real rights of citizenship which a wealthy country can bestow - crucially, in education and employment - that must happen to both alike, too.

Quentin Peel assesses the mood at the Soviet Union's grass roots

Illusion of unanimity

OLD SLOGANS still dominate the skyline of the Ukrainian city of Sumy, with giant signs decorating a line of 1950s blocks of flats: peace, labour, freedom, happiness, and, most prominent of all, communism.

Yet the symmetry of the view has been upset in recent years. A new block, architect-designed and not mass-produced, has been inserted between happiness and communism, bearing no exhortation at all.

It is a sign of the times, perhaps, and confirmation of Sumy's status as a modern Soviet city. This is the home of the Frunze engineering combine, one of the two model enterprises chosen to lead Mr Mikhail Gorbachev's experiment in real cost accounting and self-financing, a vital element in his whole economic reform process.

Yet the old slogans are also indicative of something else: economic reforms may have reached Sumy, but there is little sign of Mr Gorbachev's political ferment following in their wake.

At Communist Party headquarters on Lenin Square – one of those huge concrete expanses, with a windswept statue of the leader of the revolution, much favoured by Soviet planners – Mr Ivan Grigorievich Grintsov has been first secretary for 14 years. He is a party boss of the old school, and he is one of 24 delegates from Sumy to next week's extraordinary party conference.

In Moscow, that conference is seen as potentially one of the most dramatic events in the history of the Soviet Communist Party. It is supposed to exorcise the Stalinist mentality and structure of the ruling party, to commit its members to a new rule of open debate, democratic elections, and a curb on their privileges, and to push through new economic reforms to lift the burden of rigid central planning from industry and agriculture.

In Sumy, it doesn't really look like that. To be sure, everyone pays lip-service to the whole *perestroika* process launched by Mr Gorbachev, but somehow there is none of the same expectation of change.

For a start, there were none of the problems of popular democracy, mass protests or the like, which occurred in some other Soviet cities, associated with the selection of delegates in Sumy. The regional committee of the party chose 24 names from the 50 put forward by party branches. The 24 were put to a party plenum, and in a secret ballot, all but three won 100 per cent support. The others came only one vote short of that.

"Maybe in some places the way of selection was not right," Mr Grintsov declared. "Here we are sure that everything was done correctly."

The list of delegates is carefully balanced – only seven full-time party officials (two fewer than at the last party congress), two government ministers, seven workers, three managers, and so on. To judge by the two Mr Grintsov introduced to a group of foreign journalists this week, they will willingly follow whatever political lead he gives.

What is missing in Sumy is any of the sense of passion and soul-searching which is going on in the capital, amongst intellectuals and in the columns of the all-pervasive press.

Back in Moscow, Mr Roy Medvedev, the leading Soviet dissident historian who is only now coming in from years in the cold, is convinced that the conference will prove explosive.

"There are going to be a lot of surprises," he says. "Gorbachev is working on his speech right now. In party circles they say he is preparing a bombshell."

Mr Medvedev and many of his fellow intellectuals are hoping and expecting that Mr Gorbachev will deliver the resounding denunciation of the Stalin years, and the damning criticism of the "years of stagnation" under Leonid Brezhnev, that he stopped short of at last November's 70th anniversary of the Russian Revolution.

Stalin's picture has certainly vanished from the wall of the party headquarters in Sumy, along with Brezhnev. Only Lenin, Gorbachev, and Vladimir Shcherbitsky, the Ukraine party leader who has managed to survive from the Brezhnev era, remain in rather solitary splendour.

But it is impossible to erase Stalin from tha indnstrial museum at the Frunze factory, whose wartime and post-war recovery was e tribute to his single-minded rule.

"We don't say that Stalin is altogether a bad man," says Mr Grintsov. "He did a lot for the strengthening of socialism in the country, and in the struggle against the enemies of socialism. He did a lot for the development of industry and the defence of tha country against the fascists. But he still made a lot of mistakes. We want to avoid making them again."

What is striking about meeting the leading party members of a provincial centre like Sumy is not that they are died-in-the-wool conservatives in the party hierarchy, hankering after the good old pre-*perestroika* days. They certainly would not admit to it, if they were.

Rather, the uncritical way in which they appear to accept the new orthodoxy of reform suggests a failure to understand the genuine debate which Mr Gorbachev and his advisers want to promote.

The theses approved hy the Central Committee for discussion at the party conference, very largely drafted by Mr Gorbachev himself, and highly critical of the lack of democracy and stagnation in the Party, are accepted in their totality.

"All the Communists in the region agree with the theses," says Mr Grintsov. He naturally supports the proposal, one of the few specific plans already spelt out for the conference, to set e 10-year limit on any party official holding the same office – e limit which would immedietely exclude him from power.

There is a greater willingness to expose faults in the system, such as the continuing chronic shortages of consumer goods and many foodstuffs – hut only faults already identified hy Moscow. The fact that Sumy, at the heart of s sugar-beet growing region, and with its own sugar refinery, is forced to ration supplies to 2 kg per person per month, is not seen as e major cause of popular discontent. It certainly is in Moscow.

At the Frunze plant, whose 25,000 workars produce pumps, compressors, and centrifuges for the chemical, gas and nuclear power industries, Alexander Voronko, the managing director has been nominated and elected as conference delegate.

For him the most important question at the conference will be that of allowing greater independence to successful state enterprises such as his own, where decisions are still overwhelmingly dictated by having to provide 85 per cent of the plant's output in response to state orders, at fixed prices.

He does believe that democratisation will be a major theme, but with a party official sitting st his elbow, he is not about to spell out any thoughts of his own on the subject.

The delegates from Sumy, only 24 out of a total of more than 5,000 summoned for the extraordinary conference, are almost certainly representative of the majority who will attend.

They are used to attending party congresses where every speech from the floor is submitted and approved in advance. They show no obvious sign of having new ideas to contribute to the fundamental political and economic debate being conducted at the top of the party.

The question is whether Mr Gorbachev will seek to shock the delegates out of that frame of mind, which the intellactual reformera would certainly describe as a Stalinist mentality, or whether he will be forced to exploit it.

It is still unclear how far he intends to go in the democratisation process. Apart from restricting the term of office of party officials, the theses are cast in general terms. The conference agenda is still wide open. Most observers now expect it to be set only on the opening day, after Mr Gorbachev sets the tone with his opening address.

Reformers like Mr Medvedev still believe it possible that there could be new elections to replace many of the old-timers on the Central Committee, as a vital step to ensuring that the reform process continues. Others more closely involved in the Party dismiss the suggestion as unlikely, and expect few concrete decisions, on the grounds that the delegates may prove too conservative to shift.

A crucial indicator will be whether the proceedings of the conference are publicised, setting out for public view whatever political and ideological disagreements there may be. The most radical are calling for live televising of the entire procedure (the opening and closing sessions will be shown), while the realists simply want the press to publish all the speeches.

So far Mr Gorbachev has shown that he can use the new-found power of openness in the press to keep his reform process going, when many in the party are clearly unhappy about it. The right-wing backlash supposedly headed by his deputy, Mr Yegor Ligachev, was snccessfully headed off hy a co-ordinated press campaign over the past two months.

Yet that process in itself has been a denial of the debate Mr Gorbachev says he wants to promote: the conservatives in the party no longer dare speak out in defence of the past. Mr Gorbachev must decide whether he uses the mentality of the Stalin era to reform tha party, or whether he dares do it in genuine open debate.

THURSDAY BOOK REVIEW

Israel's Fateful Decisions

By Yehoshafat Harkabi
I.B. Tauris; £14.95

WHERE on earth is Israel going? It is a question which a plethora of writers has sought to address amid the recent celebrations of the 40th anniversary of the state's foundation. The omens are not encouraging, with the Government paralysed on the central issue of what to do with the occupied territories, and the population increasingly polarised by the Palestinian uprising.

Few pundits, however, have come np with so comprehensively bleak a vision as the one presented in the latest book by Yehoshafat Harkabi, professor of international relations at the Hebrew University of Jerusalem.

Israel, Prof Harkabi believes, is in danger of committing "national suicide" unless it condncts a fundamental reassessment of its position *vis-à-vis* peace with the Arabs in general and the Palestinians in particular. The longer the conflict remains unsolved, the more the terms that Israel can obtain in an eventual settlement will worsen, the more its own political fabric and international standing will sustain irreparable damage, the more the Arab world will be overtaken by unpredictable radical tides. Ultimately, if things continue as they are, another Arab-Israeli war will be unavoidable.

True, we have heard much of this before. Such arguments are part of the regular babble of Israeli politics, and Prof Harkabi's book has been available in Hebrew within Israel for the last two years. But his words carry the special weight of a former head of Israel's military intelligence. They also reflect a remarkable volte-face on the part of e man who used to be a prominent proponent of the idea that the Arabs were out to drive Israel into the sea.

Prof Harkabi traces the awful symmetry whereby misperceptions and extreme stances on each side of the conflict have become mutually reinforcing – from the Palestinians' refusal to recognise Israel and the Israelis' failure to identify the Palestinians as their main adversary, to the tendency by both the Israeli right and the Palestinian left to treat the dispute as e "zero-sum game" in which control of the whole of Israel and the occupied territories rather than coexistence seems at stake.

But his main argument focuses on the fundamental political ahifts which bave occurred on both sides since the six-day war of 1967. Among Arab states, he suggests, the loss of territory to Israel has caused the growth of greater realism beneath the old maximalist rhetoric. In Israel, the reverse has been the case.

Harkabi draws a distinction between policy and what he calls "grand design". Whereas Arab states and the Palestine Liberation Organisation maintain the grand design of wanting to see Israel disappear from the map, he says, governments and at least part of the PLO have moved in recent years to divorce this from their actual policy.

For many Israelis, however, the capture of the West Bank and Gaza Strip held out the prospect of fulfilling the grand design of control over all of "Eretz Yisrael" (Greater Israel). The result in 1977 was the election of the Likud Prime Minister Menachem Begin, and the subsequent Israeli policy of "annexation by default" of the West Bank and Gaza Strip, of which Israel is now reaping the bitter fruits.

Against this background, a demographic clock is ticking which will mean that on current trends Arabs will outnumber Jews in Israel and the occupied territories in the none-too-distant future. Prof Harkabi was one of the first to point this out, and it is absolntely central to the debate. Given that the Palestinians show no sign of accepting autonomy under Israeli rule, it implies that the logical consequence of current policies is the eventual expulsion of Arabs from the occupied territories.

For Prof Harkabi, there is no doubt as to where responsibility for Israel's current predicament lies: with Begin's Herut party and the ideology of Ze'ev Jabotinsky's Revisionist movement on which it founded its populist appeal.

"In recent years," he proclaims in Old Testament tones, "Israel has seen massive decline: a worsening of the public mood, the primitisation of thought, a degeneration of norms of public conduct . . . a magnification of domestic tensions. The responsibility for this decline belongs almost entirely to the Likud government."

This is arguably taking things too far. The Labour Alignment also bears a significant share of responsibility for the degeneration of Israeli public life, and for the current crisis of leadership within the country. So, too, does the Reagan administration, which allowed Israel to default on its obligations under the Camp David accords with impunity, and which has failed to censure disruptive Israeli policies such as settlement-building with anything like enough vigour. In devoting insufficient attention to these points, Prof Harkabi runs the risk that his book will be dismissed by those who do not want to face the issues he raises as e narrow party-political tract.

In fact, the very opposite is true. The book's merits – outweighing the defects of its sometimes turgid and repetitive style – are that it deliberately sets out to take the long view rather than becoming bogged down in the minutiae of Israeli politics, and that it strips away some of the more distorting myths still peddled in Israel about the conflict – in particular, that "Jordan is Palestine", and that the PLO can be ignored.

Sadly, the professor's voice is e lonely one. As he admits, the need is for a complete change in political attitudes throughout society rather than just a change of Government in this year's elections; without such a transformation those pointing ont tha long-term dangers will remain "islands of political wisdom surrounded by a sea of boorishness and folly."

Andrew Gowers

How to count shareholders

■ Apart from the lawyers, one company thet has done very well so far out of the BAT bid for the Farmers Group in Los Angeles is Fulcrum Publishing Limited. Fulcrum supplied the detailed breakdown of the ownership of BAT thet led to the insurance commissioner for the State of California rejecting the bid last Friday.

The commissioner concluded that BAT is partially owned and controlled by governmental entities from outside the state; therefore a takeover of Farmers would be contrary to the California Insurance Code.

The evidence for the judgement, which is subject to appeal, came in a Fulcrum document that lists the holdings of BAT shares down to four decimal places: for example, Abu Dhabi Investment Authority 0.8972 per cent, Shropshire County Council 0.0333 per cent.

Fulcrum was asked to provide it by Clifford Chance, who are acting for Farmers. It was the young company's first big breakthrough into consultancy. Previously it had concentrated on producing the reference book, The Index of Nominees and their Beneficial Owners, which is now being turned into an annual at £110 e copy.

Christopher Hird, one its two directors, says thet all the work is based on the journalistic technique of going on digging. Hird was a stockbroker at Simon & Coates, then worked for Michael Heseltine's now defunct Investors' Guardian. He had spells at the Economist and Daily Mail, was deputy editor of the New Statesman and moved to the Sunday Times, only to be sacked hy a new editor.

This week Fulcrum breaks new ground again, having established a Controllers' Profile which ascertains not only the largest shareholders in a company, hut also who controls a company by way of fund managers.

Hird admits that he did not initially expect the evidence submitted in the Farmers case to prevail, hut that its valne was immediately spotted hy Californian lawyers. He says that Fulcrum is not yet making much money, bnt that the prospects look good. There is a sister company called Fulcrum productions that makes business programmes for television.

OBSERVER

Tough Guy

■ When investors in the Barlow Clowes investment companies meet in Manchester Town Hall this afternoon, they will be advised to go into secret session during questions from the floor in case anything said is subject to contempt.

One journalist, however, may refuse to leave. Stephen Guy, the Press Association man in Manchester, is also an investor with £5,000 at risk. He says that he will be taking his certificate of deposit to the meeting along with his press card.

Moscow is "in"

■ Moscow has become so much the in-place to visit recently that not only tourists but foreign traders are being turned away because of the shortage of beds.

The problem has been getting worse for the last two months and is compounded by a series of political and cultural events which coincide with the tourist season.

Liz O'Shea, Moscow representative of the Barry Martin travel company which arranges trips and accommodation for businessmen, says that the operation has become a nightmare. Her company was notified by Intourist, the state-run tourist agency, in May that there would be no accommodation from May 10 to June 10 because of the Gorbachev-Reagan summit.

Then Intourist sent another telex saying that the hotel situation would be very difficult from June 10 until July 10. The reasons given were the Russian Orthodox Church millennium at the beginning of June and the Communist Party conference at the end.

"Now August is looking bleak," said O'Shea. She adds that the Soviet consulates in London and elsewhere continue to issue visas to businessmen. "People still insist on coming no matter what, and they can have a real battle when thay get to the hotel looking for a room."

"It's been our dream to have French water coursing through the bidet."

Strange place

■ Not just hippies but Anglicans are flocking to Glastonbury. The Archbishop of Canterbury is to be flown in to the Abbey grounds by helicopter at the weekend to address the Anglican pilgrimage.

The Abbey was founded some time before the fifth century and there is e story that Christ visited the spot during his missing years with Joseph of Arimathea, his great-uncle. Blake's Jerusalem – "And did those feet in ancient time?" – alludes to it.

All that remains of the legend is a thorn tree and even that is not original. The first was destroyed by a Protestant fanatic in tha 17th century and this one started as a cutting from the earlier specimen.

For centuries Glastonbury has been identified as the island of Avalon and King Arthur's grave is marked in the Abbey precincts, though again proof is sketchy. Not much remains of the Abbey which Henry VIII razed to the ground long before English Heritage was thought of. Legend has it that he watched the fire from a room in the George and Pilgrim Hotel where visitors can still spend the night.

Nobody much bothered about the Abbey until 1907 when the adjoining house was put on the market with its "interesting ruins". It was bought by Sir Ernest Jardine for £30,000, who let the Church of England have it for only a little more.

The Roman Catholics wanted the Abbey back, but their man took the wrong train on the way to the auction.

Irish Charity

■ Not all Irish-Americans – of whom there are some 43m – support the IRA or even its fund-raising activities. The lady I sat next to at dinner on Tuesday has her family origins in Belfast not the south, is a Republican not a Democrat, and is ready to leave New York for Washington in the hope of getting a job in George Bush's administration, should he be elected President.

She is a strong supporter of the Ireland Funds which last year raised over $4m for non-political projects in both parts of the island. The Funds are already established in the US, Canada and Australia. Tuesday's dinner at Claridges saw the launching of the Ireland Fund of Great Britain to go along side.

Stop that noise

■ Sign in the window of a Fulham shop: "For sale cheap, as new electric guitar and powarful amplifier. Phone....If hoy answers, please ring off and call later."

ECONOMIC VIEWPOINT: by Samuel Brittan

A single currency for the EC

HANOVER, in north-west Germany, is best known for having provided the reigning dynasty of British monarchs. Yet it may become better known as the place of next week's EC Summit, where the issue of a common currency and common central bank will be on the agenda, and which will be far more important than the Toronto junket.

Few people realise how far the governments of the European Monetary System have already committed themselves. France launched the project. In Germany it is not only Hans Dietrich Genscher, the Foreign Minister, who has welcomed it, but the Finance Ministry and Bundesbank as well. A German Cabinet resolution of February 3 stated: "The longer term goal is economic and monetary union in Europe, in which an independent European Central Bank, committed to maintaining price stability, will be able to lend effective support to a common economic and monetary policy."

A subsequent Finance Ministry statement, echoing the position of the Bundesbank, argued that a European central bank must be given a mandate to make price stability its primary goal and must (like the Bundesbank) be fully independent both of national governments and of other Community bodies. It should have a federal constitution but strong central management.

Some may wonder whether the Bundesbank really favours monetary union or is trying to kill the project with hard conditions. Motives will differ from one Bundesbank official to another. The one I heard suggesting that the new currency should be called the *franc fort*, acknowledging the the French inspiration but echoing the town where the Bundesbank is situated, was undoubtedly keen. Others who are less so will have no choice if government leaders commit themselves — as they did to the EMS itself and did not really do to the Werner Plan in the early 1970s.

The British are characteristically the least enthusiastic. Yet an executive director of the Bank of England, Anthony Loehnis, said in Strasbourg on June 15, "There may be some merit in setting in train a careful examination of the principal issues involved and the broad principles in accordance with which such a bank in due course might be established." There have been suggestions for a technical study by the central bank governors and a panel of "wise men" to examine principles.

If one talks in private to monetary union supporters among the central bankers, they are clear that the governments must make their own decision to proceed and simply ask the experts *how* to do so, not *whether*. For by nature central bankers and finance ministry officials see the objections and difficulties, but respond to firm political leadership. In fact the Hanover remit is likely to be a a compromise, which some will interpret as an investigation and others as a decision.

Everybody's motives are, of course, mixed. There are the politics of the Gallic grand gesture. There is the desire to reduce German domination of the existing EMS, which is covered by the slogan of "symmetry". But French and Italian spokesmen genuinely desire the German goal of price stability and want to use the monetary union to convince their own countrymen that the soft options of devaluation and inflation are gone forever.

Interestingly enough, some of the criticisms of the EMS made by Mrs Thatcher's advisers are remarkably similar to those made by monetary union enthusiasts, who, however, draw the conclusion that a move towards full monetary union is required to solve the problems. This particular penny has unfortunately still to drop in London and the British side will be going to Hanover anxious not to be committed to too much too quickly.

The key issne is the abolition of exchange control and the freeing of capital movements by 1992 as part of the unified market. By then it will be almost impossible for EMS countries to pursue independent monetary policies or even to impose different reserve requirements on their banks. Except when a realignment is anticipated, interest rates will tend to converge, which will in turn require a convergence of inflation rates.

One big difference between Germany and the Latin countries relates to the use of the European currency basket known as the Ecu. The Latin countries would like the official Ecu, at present used to a very limited extent in inter-country settlements, to be unified with the private Ecu which has been used in a few capital market issues and promoted as a parallel currency.

Monetary union is required if the freeing of capital is not to end in disaster

The Bundesbank and Bank of England are profoundly sceptical and fear the inflationary over-issue of Ecus. They see the path to monetary union through the convergence of policies so that realignments become smaller and less frequent and the existing currencies increasingly become substitutes for each other.

It is the Latin countries, however, who are keenest on formal transitional steps to limit realignments. Rainer Masera of the Banca d'Italia suggests unifying the present bilateral fluctuation rates from the present 6 per cent for Italy and 2¼ per cent for the rest of the EMS to a common 3 per cent. The maximum swing between any two countries would thus be 6 per cent. In addition realignments of central rates should be limited to 4 per cent and never more frequent than once a year. (He was speaking at a conference near Rome sponsored by the London Centre *for Economic Policy* Research.)

This is also a fairly standard set of ideas which featured, for instance, in the Lawson IMF plan, for avoiding the discontinuities in market rates on which speculators flourish. The Germans however fear that the weaker countries would not carry out the internal policies required to limit fluctuations, and that they would be left to pick up the pieces with intervention.

An alternative approacb bas been suggested by Professor Norbert Kloten of the Bundesbank Council, who would like the EMS central bankers to intensify co-operation on the basis of the existing D-Mark anchor. Only when confidence has been created, and currency divergencies have been narrowed in practice, rather than by formula, will the governors go on to the next stage of harmonising monetary targets and promoting the unified Ecu.

The present Ecu is just a basket of existing currencies. Kloten and Loehnis are right to argue that a battle to promote it could be a distraction from the central task of promoting monetary convergence and exchange rate stability *inside* the *EMS*. *Mrs Thatcher may* even have started talking about tbe Ecu to deflect pressure to join the exchange rate mechanism. (A genuine parallel currency, defined against a basket of goods would be an altogether different proposition).

Meanwhile one aspect of monetary which is becoming clearer is the senses in which it does, and the senses in which it does not, require the harmonisation of fiscal policy.

Last year's Padoa-Schioppa report on the evolution of the European Community knocked on the head the idea that governments would have to agree on the macro-economic aspects of fiscal policy, such as wbether to aim for a budget, balance, surplus or deficit and of what size. An advantage of monetary union is that individual governments are able to follow their own paths here, subject to two important constraints.

First the European central bank will not print money to finance any national deficit. Secondly, the ability of each national government to borrow will be limited by the willingness of the capital markets to take its bonds without a risk premium appearing.

The position will have some similarities to that in the US where individual state governments can and do borrow to differing extents, but get into trouble if they exceed prudential limits. The need to convince the capital markets should provide an effective constraint on over-indulgence in debt finance by European governments, but without removing scope for national variation.

Another unnecessary aspect of fiscal harmonisation is the Brussels Commission's inclination towards common tax rates. Different states in the US have different rates of sales tax without any great harm arising. The normal desire of the European governments to attract industry and across-border shoppers, will gradually reduce differences in both direct and indirect taxes without heavy-handed imposition of uniformity.

The sense in which an element of common fiscal policy is required is best described by the term "fiscal federalism". In a currency union, such as the US, there can be no balance of payments problem between, say, Texas and Oklahoma. A current account deficit in one state is automatically balanced by capital inflows without anyone even being conscious of the fact.

Where there is a bealthy capital flow from an area of surplus savings to one with a high return on investment (as from the south to the north of England in tbe Industrial Revolution) everything is for the best. Where, however, the deficit is the result of some economic blow — such as a drop in the price of oil in the Texan example — the existence of a common fiscal system will lead to antomatic snpport for Texas from the other States as its tax contributions fall and its receipts of federal expenditure rise. A monetary nnion does not need a fully fledged federal government, but it will work best if there are enough EC-level taxes and transfers to provide a cushioning mechanism. Even if such mechanisms are missing, however, all that a country gains by staying out of a monetary union is the freedom to devalue, a freedom that does not produce a penny of extra resources.

Thus, there is now an opportunity for both supporters and opponents of the existing EMS to join forces in promoting the next stage. Unfortunately, the British record is one of missed opportunities. Harold Macmillan, when Foreign Secretary, warned at the time of the 1955 Messina Conference against setting up a European community which might duplicate existing institutions. In 1979 the EMS was *widely* written off in London. There are shades of Macmillan in Loebnis's warnings about unripe time. So far from being something which could get in the way of achieving the unified European market by 1992, as Loehnis fears, concnrrent moves towards monetary union may be required if the freeing of capital flows is not to end in disaster.

The present combination of circumstances is unprecedented. Left of centre governments and Latin countries have become advocates of free capital movements and sound money and have turned their backs on inflation and physical controls. If the opportunity is lost now, it will not necessarily recur in tbe middle 1990s. The qnestion is whether *the Anglo-Teutonic countries* have the statesmanship to take their EC partners at their word and grasp the opportunity.

Lombard

A risk-free form of investment

By David Lascelles

The $1.4bn bail-out of two stricken Californian savings and loan institutions by the US authorities earlier this month must have conjured up for many people a picture of little old ladies having their precious savings snatched from the jaws of oblivion. Nothing could be further from the truth. The number of small savers who were at risk was negligible, and the episode highlights the hazards of operating a *comprehensive deposit* insurance scheme.

Depositors both in savings and loans and commercial banks in the US have 100 per cent of their deposits up to $100,000 insured by the two official deposit insurance corporations (FDIC and FSLIC). While this has given comfort to the small investor, it has nurtured a sophisticated industry of money brokers who take advantage of this splendid opportunity for riskless investment.

Market rates

Consider a typical case. A weakened S&L is forced to pay above market rates in order to attract the volume of deposits it needs to keep going. It is particularly keen to get long term money, so it offers premium rates for deposits of a year or more. In the Californian cases, the troubled S&Ls were offering one and a half percentage points more than their rivals, which had the additional debilitating effect of driving up rates throughout the local deposit market.

There are many money brokers who specialise in spotting these opportunities, and if they are clever they can obtain a double benefit.

First, they can be certain of getting the higher rate of interest. But the more subtle "play" is to buy a long term deposit carrying the premium rate in the hope that the S&L will go bust before the deposit matures. Since deposit insurance covers both principal and accrued interest - and is paid out swiftly - the depositor will in this case have enjoyed a long-term rate of interest, and have got his money back early.

Many sophisticated depositors were obviously playing this game with the California thrifts. So much is obvious from the relatively small number of depositors there were at the two institutions, and the high average size of the each deposit account, $90,000.

But what can be done to stamp out these practices, which, apart from enabling rogues to abuse a well-intentioned system, only prolong the life of institutions which should have been shut down long before?

The key is the acceptance of the principle that no deposit or investment can be totally free of risk. For some reason, this principle does not underly the US deposit insurance system. Depositors are placed in the enviable position of being paid to risk their money when, in practice, they bear no risk at all because their total deposit is guaranteed.

One answer may be to modify the deposit insurance scheme so that only a portion of the deposit is repaid in the event of a bank failure. This is the arrangement in many other countries (including the UK where depositors only get back 75 per cent of their money when a bank fails). Another answer would be to insure principal only so that speculators *cannot* exploit premium rates of interest.

Deposit insurance

With S&Ls collapsing left, right and centre, this may not be the moment for the US to overhaul its deposit insurance scheme; it might only make matters worse. And change might also encounter resistance from the institutions themselves because they benefit as much as anybody from the present arrangements. But the sad thing about the Californian incident is that it has taught nobody at all a salutary lesson. Rather the opposite. It has confirmed that there are few surer things in life than putting your money in a failing S&L.

Letters to the Editor

More flexibility seems preferable

From Sir Alan Walters.

Sir, It is a surprise but nevertheless a pleasure to read the editorial "Towards a Better European Monetary System (EMS)" (June 20), which tries to face up to the problems of massive free capital movements; drastic swings in interest rates, and the (French-style) immiseration — repression — due to overvaluation. Your logic is impeccable — either move to much more frequent realignments, or move to absolute fixity.

As you rightly surmise, "more frequent realignments" would be against the prevailing spirit of the EMS. Carried to its logical conclusion, the central banks may simply follow the market. The authorities could pursue policies for interest rates which are in the best interests of the domestic economy, and leave the markets to settle the exchange rates. This is the solution which, in *present* circumstances, I believe is best.

But one can opt instead for absolute fixity, provided that one sets up financial institutions with appropriate rules and procedures that make such fixity credible (Hong Kong since October 1983 is an example). In such a fixed parity system, sterling would become a fixed satellite to the solar currency, the Deutsche Mark. Germany's recessions would be exported to the UK — and price, wage and other rigidities would magnify the effects on employment, profitability and government finances.

There is no doubt about the feasibility of such a system. With the rigidities in European economies, as you point out, the costs of such fixity are likely to be unbearable.

Does not this therefore lead one to prefer "more flexibility" or perhaps even the option of letting the people, rather than civil servants, politicians and central bankers, decide what is the value of their currency?

Governments could then pursue a non-inflationary, stable monetary policy, and leave the exchange rates to be settled by those who are willing to put their own — rather than the taxpayer's — money at risk.

Alan Walters,
The World Bank,
1818 H Street NW,
Washington DC, 20453
USA

'People point the finger at the City without really knowing the facts'

From Mr M.C. Tucker.

Sir, It is disappointing to find, in Mr C.L Boxer's article ("The penalty of not speaking up," June 16) about Lloyd's, the society of insurance underwriters in London, that he has not checked his facts thoroughly.

I was one of the intermediaries involved in placing one of the Cameron Webb funds. Not only did I inform the authorities both at Lloyd's and at the Department of Trade and Industry, but I also resigned from the company, Seascope, because of my dissatisfaction with the problem.

The tenor of Mr Boxer's article is oblivious to the reality of the situation. While Lloyd's took some considerable time to investigate the Cameron Webb matter properly, the investigation did take place, and the culprits were punished and expelled. The sad fact is that the Department of Trade, while it has undertaken an investigation, has conspicuously failed to take the culprits to court.

This Government is fond of castigating the City for all sorts of problems as it sees it, but the root problem lies with Government departments and, in particular, the office of the Director of Public Prosecutions (DPP), which is so weak as to defy description.

If Government departments and the DPP had acted in a large number of cases where they have been made aware previously of situations — the recent case of Barlow Clowes being a good example — then one might have some respect for your type of article. The fact is that, time and again, the DPP fails to act, and people point the finger at the City without really knowing the facts. It is sad that a respectable paper like yours continues to perpetuate these sorts of myth.

M.C. Tucker,
Cameron Richord ond Smith Insurance Services,
Boundary House,
7-17 Jewry Street, EC3

Televising Parliament

From Mr Jeremy Taylor.

Sir, Austin Mitchell's proposals for television coverage of Parliament focus on ITN and the BBC — but ignore TV-am.

TV-am is watched by 16m viewers as their main source of news first thing in the morning; it is ideally placed to provide the first complete round-up of the previous day's proceedings. Regional ITV companies and Channel 4 are likely to be interested in items not necessarily of concern to ITN and the BBC, and they will need priority access to Parliamentary material.

We would like to see the service provided by an independent production company which does not operate its own news service, and which would make material of the proceedings available, without prejudice, to all potential users.

Jeremy Taylor,
TV-am,
Breakfast Television Centre,
Hawley Crescent, NW1

Imagine having to bleat

From Ms Evelyn Tayler.

Sir, How pathetic. Because BAA now has no meaning, a sheep theme has been chosen to promote British Airways, and no doubt Mr Edward de Bono was paid handsomely for the suggestion.

Initials have become a boring cliché; meaningless, unmemorable and quite often confusing. Wherever representatives of BAA go they will be asked: "BAA - what does that stand for?" Imagine having to bleat or answer: "Nothing." Could not BAA change its name to Airports plc: simple, easy to remember and to the point? You can't flog a sheep for ever.

Evelyn Tayler,
18 Marshalls Road,
Braintree, Essex

Published sources were in error on some important points

From Mr Leonard S. Spector.

Sir, On June 9 the Financial Times published a chart describing deployments of nuclear-capable missiles in the Middle East. The chart was based on data that I had provided to one of your reporters several weeks earlier.

My information was based on respected published sources. It appears, however, that these sources were in error on some important points, and I would like to correct the record.

Although I had listed the People's Republic of China as a manufacturer of the Scud-B, relying on the Wall Street Journal (June 5 1987), the International Defense Review (June 1987), the Washington Post (September 24 1987) and other sources, I have been advised by US officials in Washington that China does not produce the rocket. The missile is manufactured by the USSR and — it is widely believed — by North Korea. (China, however, plans to begin production of a medium-range missile, the M-9, in the near future, and is offering it for sale internationally.)

Relying on Mr Hirsh Goodman's book, Israel's Strategic Reality: the Impact of the Arms Race (1985), I had indicated that some of Iraq's Scuds were deployed in Jordan. US officials, including a former ambassador to the region, have advised me that this is incorrect, and I have been unable to find other sources to verify Mr Goodman's assertion (which he reiterated in a map accompanying a story he wrote in US News and World Report on April 4 1988.)

Finally, by way of clarification, I deliberately did not list several US and USSR missile systems which have been transferred to the region and which are deployed with nuclear warheads by the superpowers in their own arsenals.

Among these systems are the US Lance, supplied to Israel, and the Soviet SS-21, supplied to Syria. I did not include these because my compilation used the definition of "nuclear-capable" missile adopted by the Missile Technology Control Regime, announced by seven Western governments in April 1987. The regime's guidelines specify that a missile must have a range of more than 190 miles (300 kilometres) and a payload capacity of more than 1,100 pounds (500 kilograms) to qualify as "nuclear-capable." The Lance and the SS-21 have ranges considerably below this threshold. (The material I provided for your reporter highlighted this point, but your chart did not.)

Leonard Spector,
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USA

FINANCIAL TIMES
Thursday June 23 1988

David Marsh charts the political squabbles facing West German Chancellor Helmut Kohl

Strauss stunts threaten Bonn unity

MR HELMUT KOHL, the West German Chancellor, faces a tough task keeping his economic policy on course in the next few weeks, as decision-making in Bonn becomes increasingly bogged down by political squabbling.

With Bonn politics becoming more and more Byzantine, top officials are frustrated and angry that important economic decisions are often being taken to satisfy the intricacies of coalition arithmetic rather than being clearly thought out.

Mr Franz Josef Strauss, the Bavarian Prime Minister and leader of the Christian Social Union (CSU), the next biggest party to Mr Kohl's Christian Democrats (CDU) in the three party centre-right coalition, has attracted particular criticism.

Officials suspect that by digging in his heels on several coalition issues, he is trying to pay off old scores against his long-standing conservative rival, Mr Kohl, whom Mr Strauss has never forgiven for becoming Chancellor.

Mr Strauss, a keen amateur pilot, has raised hackles by successfully pushing for fuel for private aeroplanes to be exempt from value added tax in the Government's 1990 tax reform plans.

The exemption will benefit a small group of well off enthusiasts and will cost the Finance Ministry a relatively small amount of about DM 20m ($35m).

The political steam generated by the affair has taken the gloss off the Finance Ministry's 1990 tax plans, which aim to cut overall tax rates while broadening the tax base and pruning exemptions.

One senior official fumes in private that the Strauss move, the result of a four year campaign by the Bavarian Prime Minister to please the amateur flying fraternity, has done enormous political damage.

It is "grotesque, a joke," he says. "Just because he (Strauss) has made promises to some drinking friends, he turns our whole concept upside down."

Unhappy couple: Chancellor Helmut Kohl (left) and Bavarian premier Franz Josef Strauss

The 1990 package, intended to reduce income tax by a net DM 18.6bn, has lost a good deal of its political attractiveness. The cuts will be offset by an increase in consumer taxes of DM 6bn to DM 7bn next year.

Ministers and other coalition politicians are also trying to resolve differences on a proposed increase of nearly DM 4bn in unemployment benefit contributions for next year.

This additional levy is necessary to finance the cost of an average 2.3m people out of work this year and next. Borne by employees and employers alike, the increase in contributions will have a dampening effect on the economy.

The growing importance of coalition politicians' meetings in steering government policy has become a prime feature of the Kohl Government.

The coalition meetings bring together politicians like Mr Strauss and Mr Otto Lambsdorff, the economic policy spokesman of the third coalition member, the Free Democratic Party (FDP), who are not ministers and thus not accountable to cabinet.

The full cabinet meets to give its imprimatur to the 1989 budget plans on July 7. But the key decisions will have been worked out in political horse-trading well before that.

One seasoned Economics Ministry official says that legislative initiatives which used to come from ministries are now worked out in coalition juggling. Another senior official jokingly terms "the Politburo" the coalition gatherings linking the party chairmen, Mr Kohl, Mr Strauss and Mr Martin Bangemann of the FDP.

The role in decision-making of the prime ministers of the federal states (Länder) has also increased.

This is partly a natural consequence of the power to veto important government legislation enjoyed by the Bundesrat, or federal council, the upper house which groups the Länder representatives.

Mr Ernst Albrecht, the CDU state premier in Lower Saxony, for instance, has a powerful means of persuading Mr Gerhard Stoltenberg, the Finance Minister, to provide higher central government social security funding for the poorer northern states.

Unless Mr Stoltenberg comes up with a compromise on this issue, Mr Albrecht has threatened to vote against the 1990 tax reform package when it comes up for its crucial reading before the Bundesrat on July 8.

But the greatest success is likely to be clinched by Mr Strauss. A powerful backer of the European aerospace industry and supervisory board chairman of Airbus Industrie, Mr Strauss is using his influence in the coalition to press the Government to provide up to DM4bn in extra funding guarantees to safeguard the Airbus venture during the 1990s.

Mr Stoltenberg has not yet fully agreed the plan and a decision is still some weeks away. But Mr Stoltenberg has already been outgunned several times by Mr Strauss, and the chances must be high that the Bavarian Prime Minister will get his way again.

China casts doubt on Vietnam withdrawal

By Robert Thomson in Kunming, China

CHINESE forces will maintain the tension on the troubled Sino-Vietnamese border, in spite of Hanoi's proposed withdrawal of 50,000 troops from Kampuchea, a senior Chinese Foreign Ministry official said in the strategic southern city of Kunming.

Lu Zhengling, director of border affairs in Yunnan province, where tens of thousands of Chinese troops face Vietnamese forces, made fresh allegations of border incursions by Vietnam and cast serious doubt on the planned withdrawal.

Lu made clear that the Chinese troops stationed on the southern border had the dual role of defending the country and of distracting Vietnamese forces from their campaign in Kampuchea. He said tension would not be eased until all troops had been withdrawn.

In Peking, Wu Xueqian, a Chinese vice-premier, told a visiting Philippine delegation that the Government "will watch for actions" on the withdrawal. He welcomed a planned meeting of parties to the conflict, though it was still not clear who would be represented at the gathering in Jakarta, Indonesia, next month.

Lu was more suspicious of Hanoi's intentions.

"The Vietnamese make propaganda but we don't believe them," Lu said. "Now, they say they will withdraw – maybe they are just rotating troops because there is no one there to supervise their actions."

China and Vietnam, once close allies, fell out over the invasion of Kampuchea in late 1978. Shortly after, Chinese troops stormed across the southern border to "teach Vietnam a lesson," as Deng Xiaoping, the paramount leader, described the offensive.

However, the planned sharp blow against Vietnam went wrong, and about 30,000 Chinese troops were killed. Clashes have continued since along the 1,200 km frontier. Lu said there were 200 incidents reported in Yunnan last year.

Lu said Vietnamese troops had frequently shelled the Chinese side of the border, and that five civilians had been killed last month by hit-squads penetrating deep into Chinese territory.

He estimated that Vietnam had several hundred thousand troops along the border, but he would not give the strength of Chinese forces. China supports and arms the Kampuchean resistance coalition fighting the Vietnamese-backed Heng Samrin Government in Phnom Penh, and has particularly close links with the Khmer Rouge, a coalition member and genocidal rulers of Kampuchea until the Vietnamese invasion.

The head of the coalition, Prince Norodom Sihanouk, has said that he would attend the Jakarta meeting, and it is expected that China, having approved the so-called "cocktail party," would put pressure on the Khmer Rouge to take a reasonable line in Indonesia.

Asian diplomats say that Chinese officials have been negotiating with Khmer Rouge leaders for an overhaul of the organisation, which is still apparently run by Pol Pot. Vietnam has alleged that Pol Pot occasionally visits military bases and refugee camps in Yunnan, and it was recently rumoured that he has been receiving medical treatment in the Chinese capital.

Chinese officials allege that opium cultivation was part of the Vietnamese military strategy in the border region. Lu said drug trafficking helped the war effort, and Hanoi had encouraged northern farmers with the slogan "a gram of opium is equal to a bullet, and a kilo is equal to an artillery shell."

Vietnamese envoys in Peking are convinced that China is preparing to launch another big border attack as part of a plan to recover the disputed Spratly Islands in the South China Sea, where there have been recent clashes.

"Now is a good time for an attack because Vietnam still does not have many friends in the world. If they wait a few years, then we will have more friends and it will be more difficult for them," a Vietnamese official said.

THE LEX COLUMN

In praise of dearer money

Finally, a base rate rise on purely domestic grounds which might just be made to stick. The only other recent attempt – apart from the full point hike last August – was the half point rise to 9 per cent in February, which was promptly followed by the eruption of sterling through Dm3. Several things are different this time, particularly the co-ordination of monetary tightening around the world – Japan perhaps excepted – and the strength of the dollar. It will be no coincidence that when the Dow and the FT-SE hit post-crash highs yesterday, the dollar had reached a level against the D-Mark last seen on October 19.

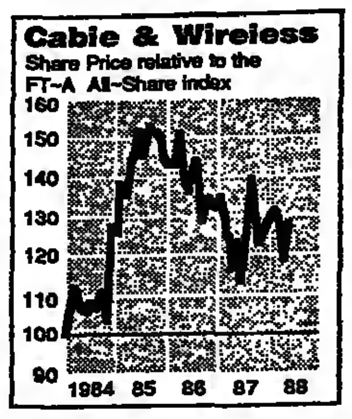
The key to it all seems to be the Fed's demonstration that it is after all possible to tighten in an election year. Wall Street has taken this as confirmation both of the strength of the US economy and of official willingness to control it, and the strength of the dollar seems to be attracting foreign investment as well. Hence, too, yesterday's strength in the London market, led by the big overseas earners like ICI and Glaxo.

But then, all this is only the reverse side of fear of inflation. In the UK, it also suggests that the Thatcher view may be gaining ground against the Chancellor, in which case, presumably, the stronger sterling the better. On the other hand, there is still the troublesome matter of the balance of payments, as next Monday's trade figures will recall. It will be interesting, to say the least, to see how the authorities respond if sterling now makes a run for Dm3.20.

Cable & Wireless

Cable & Wireless cannot have it both ways. When the Guandong PTT recently bought a 0.1 per cent stake in its Hong Kong subsidiary, C&W behaved as if this was one of the most significant Chinese investment decisions for many a year. Now that C&W has confirmed that it owns 2.8 per cent of Racal, it is keen to play down its importance, and is much more anxious to focus attention on the heady growth of Mercury. However, the Racal investment could turn out to be far more significant for C&W shareholders than the token Chinese investment in Hong Kong Telecom.

Yesterday's 5 per cent rise in C&W's full year pre-tax profits to £356m underlined yet again its urgent need to reduce its vulnerability to exchange rate movements and expand its UK operations. The £500m plus investment in Mercury is a key part of a strategy which aims to reduce the Far Eastern profit contribution from over 75 per cent to around 40 per cent over the next four years, and, judging by the ambitious market share forecasts being talked about yesterday, Mercury should be contributing around £300m a year by 1992.



However, such assumptions have to be treated with a certain amount of scepticism, partly because BT's competitive response to Mercury has yet to be felt, and partly because the longer term question of management succession has still to be resolved. Against this background, it is easy to argue a case for C&W being interested in Racal's Vodafone operations; not only does it offer a value added service, but it could provide marketing skills to a company which sometimes still behaves rather like a monopoly.

Harris Queensway

It is a sign of the credibility gap between Sir Phil Harris and the market that his first small announcement on the progress of bid talks sent the shares down 6p to 156p, even though it did not alter the sums one jot. The news that a two week deadline has been set with James Gulliver merely means that one side or the other is trying to hurry things along a bit. Either way, the issue is price, and all the indications are that the space between the two sides is still hopelessly wide. The sight of Gulliver recruiting his team may show he is in earnest, but without the support of Sir Phil it will take more than the ex-boss of Curry's to swing the deal.

Shareholders, who have put up with a false market in the shares for weeks, are in a dreadful position. As the man responsible, Sir Phil is surely not best quaified to judge the merits of Gulliver's plan, especially as the only alternative seems to be his own management buyout. He would surely have faced some searching questions at today's agm; only yesterday's statement outlawed any such enquiries. The only good thing is that a lot of busy people have been saved a wasted journey out to Orpington.

Christian Salvesen

As Christian Salvesen already has the position in Europe that others only dream of, it was odd to see it yesterday playing down its dominant role in European food distribution. Perhaps it was warning the market - which rates the company 10 per cent higher than the food sector partly on the strengths of 1992 - not to get too carried away. In the meantime its business offers more concrete grounds for enthusiasm, with nearly every part of it going well, and shortly to enjoy the gains from recent heavy investment. But delivering the 20 per cent earnings growth that Salvesen is capable of will depend on its luck turning, so that there is no repeat of the terrible pea crop which spoilt the look of yesterday's figures, or the low oil price which did the same for the previous year's. Given the premium rating of the shares, another mishap might strain the market's patience.

Maxwell/SGB

The vagueness and grandiosity of Maxwell Communications' plans for La Générale are wholly in character, and leave room for the suspicion that Mr Maxwell is yet again trying to use the media to further his negotiating position. Given the number of similar ventures which have come to nothing in the past, it is hard to know how seriously to take the projected global communications company with its equity base of "several hundred million sterling". After all, SGB has yet to produce an agreed chief executive with whom Mr Maxwell can properly negotiate; and given that most of SGB's communications interests seem to be in the form of minority holdings, it is hard to see how Maxwell's vaunted expertise can be brought to bear.

Volvo buys 20% stake in Hertz

By Anatole Kaletsky in New York and Our Stockholm Staff

VOLVO, the leading Swedish motor manufacturer, yesterday agreed to buy a 20 per cent stake in the Hertz car rental business, at present controlled by Ford, the second largest US automotive company.

Volvo will pay $100m in cash to Ford, whose ownership of Hertz will decline from 80 to 60 per cent.

For Volvo, the deal appears attractive both from a financial and a marketing standpoint. The $100m which Volvo will be paying suggests a discount of about 25 per cent to the sum Ford spent nine months ago to win control of Hertz.

Hertz was previously owned by Allegis, the Chicago-based travel conglomerate which was forced by its shareholders to sell off most of its non-airline businesses. Ford led a management group which bought Hertz from Allegis for $1.3bn.

The deal's structure meant that Ford spent only $520m in cash to acquire its 80 per cent equity stake. Yesterday's deal with Volvo implicitly put a value of $500m on 100 per cent of the equity in Hertz.

However, the main attraction of the deal for Volvo appears to be a related purchase agreement with Hertz which will "increase the exposure of Volvo products in the worldwide Hertz rental fleet."

Hertz, the biggest international car rental business and the biggest private purchaser of motor vehicles in the world, at present buys between 2,000 and 2,500 Volvos annually for its US operation. It does not use Volvos in any of its overseas businesses except for Sweden. Volvo estimated that Hertz would order about 5,000 vehicles a year after yesterday's deal.

The purchase agreement will also provide Volvo with the opportunity to introduce its cars to Hertz's rental customers. US manufacturers consider product exposure in rental fleets vital marketing tool.

Bush faces squeeze as campaign coffers reach to only $1.7m

BY LIONEL BARBER IN WASHINGTON

US VICE-PRESIDENT George Bush faces a cash squeeze which threatens to limit his activities as he campaigns in the next two months.

Campaign financial reports made available this week reveal that as of June 1 the Bush campaign had $1.7m to spend until after the Republican convention in New Orleans in mid-August.

By contrast, Governor Michael Dukakis of Massachusetts, the prospective Democratic presidential candidate who still enjoys a substantial lead over Mr Bush in the polls, has $3.6m to spend until after his party's convention, which opens in Atlanta on July 18.

Summer confinement in the nation's capital may be a good way for Mr Bush to conserve energy for the real campaign in the autumn. But one of Mr Bush's perceived weaknesses is that he is an establishment insider who is out of touch with the common people and who needs to sharpen up on the campaign trail.

Mr Bush's excursions out of town have not always proved a success. One photo-opportunity showed him gingerly entering a crack-peddling den in Los Angeles, while another revealed him holding a carrot. As Governor James 'Big Jim' Thompson of Illinois, often mentioned as a Republican running mate, said to Mr Bush recently: "Carrots don't vote."

Mr Bush's money troubles are coupled with divisions within his staff over how to handle Mr Dukakis. Some want him to be positive, to define his political persona and his agenda as a would-be president. Some want him to go on the offensive, branding the governor a liberal in the mould of Jimmy Carter or Senator George McGovern, the Democratic candidate buried by Richard Nixon in the 1972 election.

An aggressive style does not appear to suit Mr Bush. A Yale graduate, he recently dubbed Mr Dukakis a Harvard liberal – which triggered a letter in the New York Times listing numerous Yale liberals. Last week, he accused Mr Dukakis of granting temporary parole to first-degree murderers, a more promising line of attack in a country which is spending millions on building new prisons to lock up criminals, rather than let them out.

Mr Dukakis's difficulties centre more on the choice of a running-mate. A 45-minute meeting with the Rev Jesse Jackson, who has yet to officially concede defeat, was deemed productive by both men; a realistic assessment came when Mr Dukakis met Congressional Democrats who told him that a Jackson vice-presidential candidacy was a sure loser and urged him to pick a moderate from the South.

Senator Bob Graham of Florida has been asked to provide financial records to the Dukakis camp, which is also considering Senator John Glenn of Ohio and Senator Sam Nunn of Georgia.

UK raises interest rates

Continued from Page 1

calmly to the rise in interest rates which had been largely discounted. Share prices took more encouragement from a rally in the US dollar and a strong opening on Wall Street and a rally in Treasury bonds.

The FT-SE 100 Share Index closed up 19.2 at 1,879.3 and the FT Ordinary Share Index rose 14.9 to close at 1,496.5. Prices for long-dated gilt-edged securities closed slightly better.

Although the decision to increase interest rates was met with approval by independent economic analysts, representatives of industry were critical of it.

Mr John Bannan, director general of the UK Confederation of British Industry, said: "We do not believe the present medicine will have the desired results. It will have very serious side effects."

The UK Treasury said the rise represented a modest tightening of monetary conditions and was a sign of the Government's determination to stop a resurgence in inflation. But it said the Government was only "validating" higher interest rates already present in the money markets.

The Treasury remained confident, however, that the Chancellor's forecast of 4 per cent inflation by the end of the year would be met.

In evidence before the UK Parliament's Treasury and Civil Service Committee yesterday, Mr Anthony Loehnis, executive director of the Bank of England for overseas affairs, said the Bank was still in favour of higher interest rates and a lower exchange rate if that could be achieved.

Brasilia ejects Petrobras chief

Continued from Page 1

price rises in the high teens.

The minister's argument is that budget commitments and indefensibly large real rises in public sector pay last year left little other option for savings if a rapid reduction in the public sector deficit was to be achieved. Critics claim that a more rational alternative would be to dismiss the thousands of politically appointed public functionaries who do little or no work.

The scalps of Brig. Paulo Camarinha, the Armed Forces Minister who was sacked for criticising the freeze,

It must be remembered, however, that the average life of a finance minister in the Sarney administration is well under a year.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	25	77	Dubrovnik	S	24	75	Malta	S	28	82	Rhodes	S	26	79
Algiers	C	25	77	Edinburgh	C	16	61	Manchester	F	16	61	Rio de Jo	F	29	84
Amsterdam	C	17	63	Faro	F	26	79	Manila	C	31	88	Rome	F	30	86
Athens	F	31	88	Florence	S	29	84	Melbourne	F	14	57	Salzburg	C	19	66
Bahrain	S	35	95	Frankfurt	C	21	70	Mexico City	C	24	75	San Francisco	F	21	70
Bangkok	F	35	95	Funchal	C	20	68	Miami	C	29	84	Seoul	F	29	84
Barcelona	C	25	77	Geneva	S	24	75	Milan	F	27	81	Singapore	R	30	86
Beirut	C	28	82	Gibraltar	F	22	72	Montreal	C	28	82	Stockholm	C	18	64
Belfast	F	18	64	Glasgow	C	15	59	Moscow	F	24	75	Strasbourg	F	24	75
Belgrade	F	23	73	Guernsey	S	17	63	Munich	R	17	63	Sydney	F	16	61
Berlin	C	20	68	Helsinki	S	24	75	Nairobi	F	21	70	Taipei	F	34	93
Biarritz	S	20	68	H. Kong	F	31	88	Naples	S	27	81	Tangier	C	22	72
Bombay	F	31	88	Innsbruck	F	30	86	Nassau	C	31	88	Tel Aviv	-	-	-
Bordeaux	S	27	81	Inverness	C	16	61	New Delhi	F	31	88	Tenerife	F	24	75
Brussels	C	16	61	Islamabad	-	-	-	New York	F	35	95	Tokyo	F	26	79
Budapest	S	23	73	Istanbul	F	20	68	Nice	S	24	75	Toronto	F	31	88
B. Aires	F	19	66	Jakarta	C	32	90	Nicosia	F	35	95	Tunis	S	29	84
Cairo	S	32	90	Jersey	S	19	66	Oporto	C	28	82	Valencia	F	27	81
Cape Town	S	17	63	Jo'burg	S	11	52	Oslo	F	29	84	Venice	S	25	77
[illegible]	R	27	81	Lima	F	19	66	Paris	F	26	79	Vienna	F	22	72
Casablanca	F	23	73	Lisbon	C	18	64	Peking	C	24	75	Warsaw	R	15	59
Chicago	C	27	81	London	F	19	66	Prague	F	20	68	Washington	S	27	81
Cologne	C	17	63	Los Angeles	S	15	59	Reykjavik	C	8	46	Zurich	-	-	-
Copenhagen	C	17	63	Luxembourg	C	21	70								
Corfu	S	28	82	Madrid	S	27	81								
Dallas	S	23	73	Majorca	S	32	90								
Dublin	F	19	66	Malaga	F	25	77								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Estonia sets out demands

Continued from Page 1

gramme calls for a return to the Leninist idea of "socialist federalism," giving all the republics the right to choose an official language and grant citizenship.

Estonia, like neighbouring Latvia and Lithuania, was briefly independent between the first and second world wars, and has always harboured a strong nationalist movement.

Mr Vaelaes' appointment as the new party leader in place of Mr Karl Vaino was seen last week as partly a local revolt against a leader who was insensitive to nationalist feeling, and was in danger of driving it outside the ranks of the ruling party.

The new leader gave his virtual blessing to the new document when he told Izvestia, the Soviet government newspaper, that it was "a unique document discussed by the whole people and incorporating the ideas and aspirations of a broad spectrum of public opinion."

In doing so, he followed the line taken by new party leaders in both Armenia and Azerbaijan, where they have backed the popular nationalist demands of demonstrators.

INTERNATIONAL APPOINTMENTS

NYSE executive changes follow president's election

THE New York Stock Exchange has named Mr Donald J. Solodar senior vice president, capital markets group, with responsibility for equity prodncts, fixed income products and the Exchange's market data group.

Mr Solodar, 45, formerly senior vice president, market surveillance, has assumed the responsibilities previously held by Mr Richard A. Grasso, 41. The latter was designated in March as the next NYSE president and chief operating officer, and formally elected to these posts on June 2.

In their new roles, Mr Solodar will report to Mr Grasso, who was formerly executive vice president, capital markets.

The management of the New York Futures Exchange and options and index products, previously reporting to the NYSE capital markets group, were assigned to Mr Lewis J. Horowitz, 53, NYFE chairman, president and chief operating officer, and NYSE executive vice president, derivative products group.

Since 1984, Mr Solodar had been in charge of market surveillance, covering market trading analysis, rule development, specialist performance evaluation and member trading analysis.

Replacing Mr Solodar is Mr Robert J. McSweeney, 35, who has switched from NYSE vice president, member trading analysis, to vice president, market surveillance. Mr McSweeney will also he responsible for the NYSE's special mergers and acquisitions unit.

Mr Horowitz, president and chief executive since January, 1983, of the New York Futures Exchange, a subsidiary of the NYSE, was appointed to his other positions on June 2. He will serve on the NYSE's management committee and report to Mr Grasso.

The NYSE board also approved the promotions of Mr Stephen J. Paradise, 55, to senior vice president, congressional and regulatory relations, and Mr Santo A. Famularo, 42, to vice president, floor operations support.

Nokia names consumer electronics head

BY OLLI VIRTANEN IN HELSINKI

NOKIA, Finland's largest stock market listed company and with its major business in electronics, has appointed Mr Jacques Noels, presently senior vice president of the French State-owned Thomson SA electronics concern, as president and chief executive of Nokia Consumer Electronics.

Mr Noels, 47, has also heen made a member of the board of directors of the Nokia Group. He will largely take up responsibilities of Mr Timo H.A. Koski, who died some two months ago.

The Nokia Consumer Electronics division is Europe's third-largest colour television manufacturer and the higgest European monitor maker.

At the same time, Nokia named Mr Paavo Rantanen, 54, member of the board of directors supervising international customer and co-operative venture relations, and also trade and industry policy. He is a career diplomat currently aerving as Finland's Ambassador to the US.

He has been in the service of the Ministry of Foreign Affairs since 1958, including a five-year term to 1986 as Ambassador and Permanent Representative for international organisations in Geneva, auch as GATT and EFTA. For the previous seven years from 1974, he held high positions in the Department for External Economic Relations.

Mr Noels has held a number of posts within Thomson's top management since the French company was nationalised in 1982. Prior to that, he spent 17 years with US semiconductor and electronics group Texas Instruments, becoming chairman and chief executive of its French unit and a member of the Corporation Management Committee.

Top man at ICI's Canadian arm resigns

By Robert Gibbens in Montreal

AT CIL, the Canadian arm of Imperial Chemical Industries (ICI), the UK's largest chemicals group, Mr Charles Hantho is resigning as president with effect from July 31.

His replacement is Mr Bernard Lochtenhurg, who will move from his post of senior vice president at the ICI America unit.

The company said that Mr Hantho's resignation was accepted with regret and he will remain a board member.

An engineer hy training, Mr Hantho, 56, has spent the last six of his 35 years with CIL as chief exechtive. He had the task of streamlining and reorganising the company after the 1982 recession, and has seen its performance tnrned around.

This spring, however, ICI bought in the puhlicly held 28 per cent of CIL and put it virtually under the wing of ICI America.

Mr Hantho opposed the reduction in autonomy for the Canadian unit, a move in the opposite direction from Dn Pont Canada, which has retained its antonomy from the US parent Du Pont.

GPG appoints three new board members

GPG (formerly Guinness Peat Group), the London-based financial services organisation which is 61 per cent-owned by the New Zealand Equiticorp investment company, has announced the appointment of Mr David Adams, Mr John Renwick and Mr Edwin Stanley to the GPG board.

Equiticorp is currently in the throes of restructuring, including a planned shifting of its hase from New Zealand. It intends to operate from Hong Kong, have a regional base in Sydney and its corporate registration in the UK.

Also, the Guinness Mahon investment banking husiness has been demerged from GPG, with shares of the former listed on the London Stock Exchange from early this month.

Mr Adams, 50, is a director of Equiticorp responsible for its Australian operations. After joining Equiticorp as general manager, commercial finance, in New Zealand, he moved to Australia to estahliah the commercial finance husiness there. He had previonsly held senior executive posts with Broadbank, while his earlier career was with the Bank of New Zealand.

Mr Renwick, 41, was appointed at the start of this month president and chief executive of Guinness Mahon Capital Corporation, holding company for GPG's substantial US business interests.

He was formerly chief executive of American Strategic Investments. Before that, he spent 13 years with Manufacturers Hanover Trust in New York, where he was managing director, investment banking, responsihle for the Private Placement and Corporate Finance departments.

Mr Stanley, 51, is chairman and co-founder of Management Compensation Group, N.W., a GPG subsidiary and one of the largest professional consulting companies in the US specialising in the design, installation, funding and administration of executive compensation and benefit plans for Fortune 500 companies.

* * *

A FORMER member of the swaps group at Warburg Securities, part of the S.G. Warburg UK investment hanking concern, has joined Mitsubishi Finance International, UK-registered wholly owned subsidiary of Mitsubishi Bank, a leading Japanese bank.

He is Mr Craig Kersey, who has assumed the post of associate director in the risk management and technical products group, with specific responsibilities in both the interest rate swap and arbitrage products areas.

* * *

HAWKER SIDDELEY, the electrical and mechanical engineering gronp hased in the UK, has named Mr Gerald M. LaButti president and chief executive of Aerospace Avionics, of New York, a specialist electronic manufacturing subsidiary.

At the group's Sydney-based Hawker Pacific aerospace servicing company, Mr David C. Bell has been made a director.

Accountancy Appointments

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Résumés please, including a daytime telephone number, to Janice Walden Ref: JW 868.

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FINANCE DIRECTOR

West Midlands £30,000+Car+Bonus+Reloc.

Our Client is a prestigious, independently-owned manufacturing company whose products are recognised market leaders. Company strategy is positive and highly results-orientated, giving an excellent performance record to date and ambitious plans for the future.

The Company now wishes to appoint a highly competent and dynamic individual to the Board position of Finance Director. As an influential member of the senior management team you will work closely with the Managing Director, giving vital advice on forward business strategy including mergers/acquisitions. With a staff of 27, you will head the Finance and Computing functions and assume overall responsibility for the provision and interpretation of accurate and timely financial information. The successful candidate will also be expected to participate strongly in the future development of company systems.

Applicants will be qualified Accountants with a demonstrable record of senior management gained ideally in the manufacturing industry. Of paramount importance is the ability to communicate effectively at all levels and the capacity to achieve a broad and interpretative perspective on company operations and business opportunities. It is unlikely that candidates under the age of 30 will have the necessary stature that the role demands.

If you would like to be considered for this exceptional opportunity, please write with full career and salary history details quoting reference B/129/88 to Steven French.

KPMG Peat Marwick McLintock
Executive Selection
Peat House, 45 Church Street, Birmingham B3 2DL.

Audit — a fast track to senior management with overseas travel...

West Kent — **c£20,000 + Car**

Our client is a highly successful UK multinational group manufacturing a wide range of products, with operations spread across the UK, Europe, Africa and the USA. The company has an excellent reputation with a large number of market leaders among its product groups. Its success is demonstrated by a consistently high level of growth through both organic development and by acquisition.

Due to promotion, a qualified accountant is required to join the internal audit function. Leading a small, professional team, you will be responsible for the review of operations of a broad range of companies. This will involve occasional overseas trips, particularly to the USA and Europe and there is a very high level of exposure to Senior Management group-wide.

Prospects are superb – the group has a strong commitment to its motivated, high calibre management and the audit function in particular can demonstrate an excellent track record of rapid promotion to senior roles throughout.

If you believe you have the potential our client requires, contact Tim Forster on 0372 375661 or write to him at Michael Page Partnership, Cygnet House, 45-47 High Street, Leatherhead, Surrey KT22 8AG.

Michael Page Partnership
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

MAJOR ADVERTISING AGENCY

Assistant to the Director of Finance - Europe

Age 27 - 29 — **Package £25-30,000 + Car**

Our client is a highly successful, major international advertising agency that has an extensive presence in Europe through 20 operating units.

The agency has decided to appoint an Assistant to the Director of Finance – Europe, who will be based in Central London at the agency's European Centre.

Relative to the operating units, your responsibilities will include:

- Contact with both senior financial and operational management.
- The monitoring and analysis of financial results.
- The development of financial systems.
- The establishment and development of a financial database.
- Periodic visits within Europe.
- Ad hoc projects.

In addition to the above, your responsibilities will include some involvement in the accounting activity at the European Centre.

Candidates will be graduate Chartered Accountants who can offer a practical rather than purely theoretical approach. In addition, you must be able to demonstrate initiative, self motivation, good inter-personal skills, and be credible to both financial and non-financial management. A working knowledge of French or Spanish would be useful, although this is not essential.

Interested individuals should write to Peter Flamminger, Director, enclosing a resume and current salary details at: FMS, 14 Cork Street, London W1X 1PF.

F M S
Search and Selection Specialists
for
Financial Management

Credit Vetting Manager

to £20,000+bonus+car — Uxbridge

Within the £3b UK soft drinks market one company is clearly established as the 'number 1' – Coca-Cola and Schweppes Beverages Limited.

With some 2000 multiple account customers providing in excess of £100 million of business the correct assessment of credit levels within this sector is absolutely fundamental to our continued success.

Adopting an investigative, analytical approach your role will be to take credit vetting decisions on accounts totalling up to £500,000, and make recommendations on credit control on larger accounts. This will entail the on-going analysis, interpretation and investigation of data on both new and existing accounts in order to monitor and set viable credit limits.

However, it's not simply a policing brief – you will have considerable involvement in the development of new systems and methods designed to identify possible problem areas.

A graduate-level part-qualified accountant or credit professional (MICM) you must have significant experience of Credit Vetting/Credit Analysis – ideally gained in an f.m.c.g. environment.

You must have well developed analytical skills and sound judgement coupled with the managerial ability to lead a small team, and the maturity to take quality decisions concerning very large sums of money.

Previous experience of computerised credit control/IBM PC systems is particularly advantageous.

In addition to a negotiable salary of up to £20,000 benefits include • fully expensed car • bonus scheme • BUPA • pension scheme • relocation assistance – if appropriate.

Please write with full career details including current salary to: Pauline Garratt, Resourcing Officer, Coca-Cola and Schweppes Beverages Limited, Charter Place, Vine Street, Uxbridge, Middlesex UB8 1EZ.

COCA-COLA & SCHWEPPES
Beverages Limited

Greater London Enterprise is a widely based financial services group investing in building new, commercially viable businesses throughout the capital.

FINANCIAL CONTROLLERS

from £30,000 + car

The sound financial management and administration of the Group's operating divisions, consolidated subsidiaries and investments, is of fundamental importance to achieving the Group's commercial objectives. Our current need is to appoint Financial Controllers for two of our Operating Subsidiaries **London Enterprises Ltd and GLE (Properties) Ltd.**

In each case, you will be responsible for the management and effective communication of all financial information relevant to the Subsidiaries, including the production of statutory accounts and the preparation of annual budgets. You will also be expected to prepare forward forecasts and contribute to long term planning strategies.

A qualified accountant, you should have a post qualification background which spans at least 5 years and includes experience of both Management Accounting and managing a team of professional staff.

For further information, a job description and application form please contact: Vanessa Moody, Greater London Enterprise, 63-67 Newington Causeway, London SE1 6BD. Tel: 01-403 0300.

GLE is committed to achieving equality of opportunity in employment.

Closing date for applications: 15th July 1988.

· GLE Group ·

INVESTING IN ENTERPRISE

INFLUENTIAL ROLES FOR ACCOUNTANTS

Crawley - West Sussex

Rediffusion Simulation are world leaders in the design and manufacture of flight simulators. Growth in this hi-tech environment has increased turnover beyond £100M. Recent corporate re-structuring has opened up exciting career opportunities for two dedicated finance professionals within this important subsidiary of a major international group. Both positions entail responsibility for devising and implementing ambitious new procedures and systems to maintain and further enhance levels of profitability.

MANAGER - COST ANALYSIS c £26,000 + car

A qualified accountant is required to manage a department of 16 with responsibility for:

- ☐ Planning, implementing and maintaining multi-site, multi-product costing systems.
- ☐ Interrogating profitability of long term projects.
- ☐ Forecasting/budgeting for separate business units.

A high degree of computer literacy will be backed by a substantial background in standard costing gained from within a progressive manufacturing environment. Ref: A152

TREASURER/ FINANCIAL ANALYST c £22,000 + car

This is a broadly-based role for a newly/recently qualified chartered accountant with the creativity and flair necessary to devise and introduce new systems and manage a department. Responsibilities will include:

- ☐ The design and implementation of a multi-currency treasury management function.
- ☐ Tax preparation and advice.
- ☐ Financial analysis and forecasting.

You will become involved in a number of interesting ad-hoc assignments including acquisitions. An appreciation of micro-computers and spreadsheet software would be a distinct advantage. Ref: A153

Both positions carry a highly competitive remuneration package, comprising an excellent salary, company car and a comprehensive range of benefits, including full relocation assistance where appropriate. Broad scope exists for rapid and sustained career development in line with the company's expansion.

For further information about these truly exceptional opportunities please write enclosing full CV, quoting appropriate Reference number, to Jenny Tucker or Phillip Price ACA at Mervyn Hughes International Ltd., Management Recruitment Consultants, 63 Mansell Street, London E1 8AN. Telephone: 01-488 4114.

UK Financial Controller

Covent Garden £42,000+car

CAP Group plc is one of Europe's largest independent systems companies, having recently merged with the French software systems group Sema-Metra. Now with over 6,000 staff and increased market penetration, turnover of the company will be in excess of £300 million.

Based in Covent Garden, the position of UK Financial Controller is a direct result of the Group's continuing expansion and development of new business areas.

Reporting to the Group Finance Director, the objectives of the UK Financial Controller are to improve financial performance by coordination of the financial management of the CAP Group and to provide the highest quality financial and commercial advice to Divisional and UK management.

The candidate we are seeking will be a qualified accountant, aged 35–40, with a number of years' experience of controllership within a service industry. Information technology sector knowledge would be useful, though not essential, but the ability to thrive in a rapidly changing environment is a necessity. The challenging nature of this position also requires involvement with group systems implementatioo, and the ability to communicate logically, effectively and forcefully at all levels including noo financial divisional managemeot.

If your career to date equips you for this exceptional opportunity, please contact **Diane Forrester ACA** on **01-831 2000,** or write to her at **Michael Page Partnership, 39-41 Parker Street, London WC2B 5LH.**

CAP The Systems Company

Michael Page Partnership
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

Blick plc

Group Finance Director

Swindon c£45,000 package

Blick plc, fully quoted since June 1986, is seeking a commercially minded chartered accountant to join the main board, following the appointment of the present incumbent as Group Managing Director.

The Blick Group is the established market leader in the time control market and has a significant presence in the on-site alphanumeric paging market in both the UK and in Europe.

The Group has a substantial long term rental business and a well-established customer base.

The interim statement published earlier this week reported Group turnover of £9.2m and pre tax profits of £2.1m for the six months to March 1988.

The Group Finance Director will be responsible to the Managing Director for the successful management of the finance function, through the present subsidiary company finance directors, and, the Group's cash resources and tax planning. In addition, the finance director will play an important part in developing the Group through acquisition as well as continuing with the well-established links to the City and institutional investors.

Applicants should be suitably qualified accountants, aged between 35 and 45 and presently either a Finance Director of a similar sized company or controller of a larger organisation or division. A strong practical management style and proven ability to communicate will be necessary to make a successful contribution to the senior management of the Group and its subsidiaries.

On offer is an excellent career opportunity with a commensurate remuneration and benefits package (which includes stock options, bonus scheme, executive car and pension).

Candidates should forward a comprehensive cv to Anthony Hodgins ACA or Renny Hayes BA ACA at Michael Page Partnership, 29 St. Augustine's Parade, Bristol BS1 4UL, quoting reference 374.

Michael Page Partnership
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

Director European Treasury

Herts to £40,000 + Bonus etc

Our client, a US multinational engineering, systems and service conglomerate, seeks a Director European Treasury for their $400m turnover European operations which currently extend across 10 countries.

Reporting directly to the USA, you will be responsible for implementing central treasury policy throughout Europe and formulating, recommending and actioning European policy as appropriate. This will encompass cash and f/x management, trade finance, capital structuring, bank relationships, and the development of treasury management and reporting systems across all European business units.

This is an exciting development role which will appeal to a highly motivated self-starter with the ability to identify and communicate key issues quickly and effectively. You will already hold a senior treasury position, ideally within a US multinational, and have a sound knowledge of international financing techniques, European financial markets and foreign exchange markets.

Interested candidates who meet these demanding requirements should write to Barry Ollier, BA, ACA, enclosing comprehensive curriculum vitae and daytime telephone number at Whitehead Rice, 295 Regent Street, London W1R 8JH quoting Ref: 246. (Tel: 01-637 8736).

Whitehead Rice

MANAGEMENT SELECTION

MARKETING ORIENTED...

FINANCIAL CONTROLLER

c £33,000 + car + bonus

This rapidly expanding business is a high profile division within one of Britain's largest public groups. It has a turnover of £250m and markets a range of attractive telecommunications products for the business user. Amongst the leaders in each of its markets, it has a reputation for innovative new product developmeot, and is developing an increasingly international presence.

The Division is organised functionally, giving this position two stimulating objectives. As a key member of the Marketing Group, the Controller provides financial analysis and advice to support marketing decisions. The Cootroller is also jointly responsible for the performance of one of the Division's most aggressively expanding busioess units. You will have the support of a small high calibre team.

The Marketing Group's central and driving role in the Division makes this a key role of great importance. Candidates should be qualified accountants or financial MBA's, probably aged in their early thirties. You should be accustomed to a consumer oriented environment, and ideally have worked closely with an ambitious sales or marketing team. Your success will be determined by excellent communications and reasoning skills, commercial flair and eoergy.

Please write in confidence with concise career, personal and salary details, quoting Ref: L357 to Heather Male.

Egor International Ltd, Metro House, 5th Floor, 58 St. James's Street, London SW1A 1LD. Tel: 01-629 8070.

EGOR EXECUTIVE SELECTION

Great Britain · Belgium · France · Germany · Italy · Portugal · Spain

Financial Controller

circa £27,000 plus car etc
Surrey

A highly successful builders supply group, our client is part of one of the top 100 UK companies. Due to the promotion of the last Head of Finance they are now seeking an experienced and ambitious individual to take over the day to day management of the head office finance department.

Reporting to the Managing Director, the successful candidate will be responsible for providing a complete accountancy service to the area depot management as well as the board.

Candidates, who should be in their mid thirties, must be qualified accountants with extensive 'hands on' financial management experience. Ideally, they should also have strong interpersonal and communication skills and be able to negotiate with all levels of management.

The remuneration package will include a quality executive car, pension and substantial bonus which is reflected in the salary quoted above. Please reply with full CV and salary details, quoting MCS/9002 to:
Susan Ryder
Executive Selection Division
Price Waterhouse
Management Consultants
No. 1 London Bridge
London SE1 9QL.

Price Waterhouse

Telford

FINANCE DIRECTOR (Designate)

To £25,000 + car **+ substantial potential benefits**

This opportunity arises due to internal promotion in a subsidiary of a £375 million turnover international group. Supplying the catering and vending industries, this food processing company has sales in excess of £10 million and employs about 100 people.

Reporting to the Managing Director and controlling six staff, the Finance Director (Designate) will be responsible for all finance, D.P. and general administration functions. The successful candidate will participate actively, as a member of a small management team, in making business decisions affecting the company's profitability and future development but must also be willing to get involved in detailed work and adopt a shirt-sleeves approach.

Applicants must be qualified accountants whose manufacturing industry experience, preferably gained in a batch production environment, should include both standard costing and product profitability reporting. Exposure to the food, packaging or FMCG industries would be an advantage.

Relocation expenses will be paid where appropriate. Attractive additional benefits will apply on achieving full board status in about one year and this expanding group offers ample scope for further career development.

Please send a comprehensive career résumé including salary history and day-time telephone number, quoting ref: 2931 to Graham Perkins, Executive Selection Division.

Touche Ross

Thavies Inn House, 3/4 Holborn Circus, London EC1N 2HB. Telephone: 01-353 7361.

APPOINTMENTS ADVERTISING

Appears every Wednesday and Thursday

for further information call 01-248 8000

Tessa Taylor ext 3351

Deirdre Venables ext 4177

Paul Maraviglia ext 4676

Elizabeth Rowan ext 3456

International Finance – Hi-Growth

Asset Control Manager

M40 Corridor c£27,500+Car

Our client is the international headquarters for a major healthcare division of a multi billion dollar turnover US "blue chip" corporation. The international HQ is responsible for all non-US operations with subsidiaries in over a dozen countries, manufacturing in three of them, and a turnover of $200 million. Growth and profitability are high with substantial future organic growth opportunities.

Following a recent promotion the opportunity has arisen to introduce fresh creative thought into the field of international financial management. Reporting to the Director, International Accounting, the Asset Control Manager will have responsibility for a small staff in reporting and controlling the International Divisions assets eg. Receivables, Inventory, Treasury. You will also be responsible for recommending courses of action or creative solutions to amongst others, Tax, Dividend Planning and Export Credit Management.

The successful candidate will be a qualified accountant aged 27-31 with experience of multinational reporting in a rapid growth environment. You will be ambitious, highly committed and creative, with the ability to think laterally in your resolution of issues. The presence and maturity to relate to overseas line management and senior divisional management is also important. As might be expected of such an international role regular travel will be required – approx 20%, and a second language would therefore be useful.

The remuneration package is negotiable for the right person and will include a fully expensed car, pension, medical health cover and a full relocation package.

This is an excellent opportunity to gain international group experience in a highly regarded organisation. If you can identify with this role, I would be pleased to hear from you – send your cv to:
Wayne Thomas, Executive Division,
Michael Page Partnership, Kingsbury House,
6 Sheet Street, Windsor SL4 1BG.

Michael Page Partnership
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

COUNCIL FOR NATIONAL ACADEMIC AWARDS

ACCOUNTANT

CNAA is a chartered body with the responsibility for awarding degrees in Polytechnics and Colleges nationally.

We are seeking an accountant, preferably qualified, to make a positive contribution to our small Finance Unit.

He/she will report to our Head of Finance, and major responsibilities will include the development of computerised accounting and reporting systems, and the supervision of the accounting function.

The salary will be on an incremental scale which runs from circa £16,500 to £23,400 pa.

Interviews will be held on Tuesday, 2 August 1988.

For further details please contact:
Personnel Office
CNAA, 344-354 Grays's Inn Road
London WC1X 8BP
Tel: 01 278 4411 ext. 279/262

The closing date for receipt of applications is 15 July 1988.

COUNCIL FOR NATIONAL ACADEMIC AWARDS

PARTNERSHIP SECRETARY

c. £25,000 p.a. incl. Benefits

My clients are a prominent, long established legal practice in Surrey with several branch offices. They seek to appoint a suitably qualified person for the appointment of Partnership Secretary, based in West Surrey.

This is a new appointment of partnership status involving full responsibility for the firm's administrative functions particularly those relating to accounts, human resources and technological development. An important aspect of the appointment will be to ensure effective communication and co-ordination between the firm's branch offices.

The successful candidate will be a person with considerable accounting and administrative ability who has had good relevant experience in a senior capacity within a commercial or professional organisation.

Please apply with CV and details of current remuneration, quoting JH/701, to:- Michael Williams, John Hamilton Associates, 46 Aldgate High Street, London EC3N 2AL Tel: 01-481 8514

JHA John Hamilton Associates
Management and Recruitment Consultants

UK Financial Controller

c. £30,000 plus car — Bracknell

The company is the UK subsidiary of a successful leading Canadian software supplier specialising in advanced language technology for developing business applications. The company is committed to a high level of expenditure on research and development and its products have achieved worldwide recognition. The European business is growing rapidly and as part of its strategic development the company is forming an independent UK head office structure.

The new position of UK Financial Controller will report to the Director of Finance and Administration, Europe. The incumbent will develop the financial systems and controls and have complete responsibility for the management and financial reporting, the computerised accounting operations, a staff of 7, and all financial administration including sales order processing. The position is autonomous and offers considerable scope for advancement.

Candidates will preferably be chartered accountants aged 30 to 35 with a well rounded commercial awareness. Experience of developing financial systems, controls and reporting procedures in a fast moving hi-tech company is important. You should have worked for an international company and be familiar with computerised accounting systems. In addition, you will need initiative and well developed interpersonal skills. Your approach must be results oriented and you should be able to adapt quickly to the demands of a changing environment.

If you are interested please reply in confidence giving concise career, personal and salary details to:
Michael Fahey, Ref ER 107,
Arthur Young, Corporate Resourcing, Citadel House, 5-11 Fetter Lane, London EC4A 1DH.

Arthur Young Corporate Resourcing

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Group Financial Controller

West End — £33,000 + executive benefits

Our client is a highly successful PLC with exceptional growth and activity. The group's operations embrace property development, construction, mineral extraction and health care.

Reporting to the Managing Director, the Group Financial Controller will be responsible for all group financial matters which embrace cash flow, group accounting, budgets, statutory accounts and involvement in acquisitions.

This position offers tremendous experience coupled with excellent prospects and will appeal to self motivated commercially minded accountants.

Candidates must have trained with a small firm of chartered accountants or have gained experience of preparing accounts within a general practice group in a larger firm of chartered accountants. Experience of group accounting gained within a large commercial group would be an added advantage but is not essential. The age indicator is 28-33.

Vital attributes are strong inter-personal skills with a results orientated approach.

The salary package will include a generous executive pension scheme, share options and an executive car.

If you are interested and meet the above requirements then please send your curriculum vitae and daytime telephone number to **Jon Anderson ACMA, Executive Division, 39-41 Parker Street, London WC2B 5LH,** quoting ref. M100.

Michael Page Partnership
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

Director of Finance

C £30,000 p.a.

The North West Surrey Health Authority employs some 3000 people in a pleasant, semi rural part of Surrey, yet within easy reach of London.

Crucial to the successful running of the Authority is the careful control, administration and allocation of the yearly budget which is in excess of £44 million and this will be the prime responsibility of our new Director of Finance.

Reporting to the General Manager and the Health Authority on all matters concerning the design of financial policies, appropriation and use of total financial resources and overall control, he/she will lead an established team operating in a busy environment which has a high public profile.

Activities key to budgetary control embrace management of resources, corporate direction, the formulation of strategic and short term objectives, the collation and eventual disbursement of financial information, close liaison with relevant managers to ensure uniformity of intent and the leadership of the Authority's income generation and value for money initiatives.

The man or woman appointed will be formally qualified and will have spent several years in a senior financial managerial position – not necessarily in the public sector – which involved sophisticated financial planning and continued strategic review.

A proven communicator, the Director of Finance will make an important contribution to the future development of the Authority.

Salary offered is likely to be £29,790 p.a. plus performance related pay. Benefits include a lease car scheme, pension scheme and relocation package to the Surrey area as appropriate.

Informal enquiries to Richard Meara, District General Manager, Ottershaw (093287) 2000 Ext 2295.

Information package from Sarah Waller, Director of Personnel, District Headquarters, Botleys Park Hospital, Guildford Road, Chertsey, Surrey KT16 0QA. Tel: Ottershaw (093287) 2000 Ext 2131 to whom curriculum vitaes should be sent together with the names of 3 referees by 8th July 1988.

North West Surrey Health Authority

"Career Opportunity – Commodities"

YOUNG ACCOUNTANT

City — c £25,000 + CAR

My Client is a highly respected Commodity broker, based in the City, with offices in Singapore and New York.

Long established in its core business in soft commodities, this forward thinking Firm, which has successfully applied its expertise in developing significant new businesses in allied areas, continues to look for strategic growth opportunities.

Reporting to the recently appointed General Manager, this role is primarily to manage the financial accounting function. In addition the applicant will be required to play a major part in developing computerised accounting systems and to participate fully in the financial management of the business.

This challenge is for a young, ambitious ACA, probably 24-28, who has at least a year's management experience gained in the City, preferably in brokerage. Commercial acumen and computer skills are essential, allied to an assertive character, tempered with the tact required to operate in an hitherto traditional environment.

Please write with detailed CV, including current salary, quoting ref FT125, to:-
Monty Grigg, BSc, MIPM,
Haines Watts Recruitment Services,
Palladium House,
1-4 Argyll Street,
London W1V 1AD.
01-734 6571.

HW

AUDITORS

COMPUTER AUDITOR — **£25,000 + Car**
International insurance company, excellent prospects to the top. AN01200

INTERNAL AUDITOR — **£22,000 + Car**
Heading a team with this international, rapidly expanding comany AN01199

SENIOR INTERNAL AUDITOR — **£20,000**
Prestigious manufacturing company, rapid career development for high flyers. Excellent opportunity. AN0224

MANAGEMENT CONSULTANCY AND AUDIT £10,000 + Car Neg
An auditing role with a difference. Liaison at all levels, taking e senior role within this major international group you will be based in Gloucestershire AN0248

TRAINEE PACKAGE - INTERNAL AUDITOR £12,000 Neg
Junior, career orientated with an enthusiastic approach. Already part qualified you will want to specialise into this area of accountancy with this million £ turnover company. AN0206

PRACTICE AUDITORS - VARIOUS CHARTERED ACCOUNTS
Fully Negotiable

All positions offer relocation and excellent company benefit packages. These are a selection of current positions which are based in Wiltshire, Gloucestershire, Derby and Bristol. We do of course have numerous other qualified and part-qualified positions available.

Accountancy Network

Call Connie Jeapes 0793 612222

5 Marsh Street	101 Commercial Road	31 Cross Street	Grosvenor Gardens House
BRISTOL BS1 4AA	SWINDON SN1 5PL	READING RG1 1ST	37 Grosvenor Gardens
Telephone	Telephone	Telephone	LONDON SW1Y 0SS
293300	612222	500551	Telephone 01 828 8994

Financial Director (Designate)

Advertising Agency

London, W.1 — £34,000 + Car

Our client is a recently formed advertising agency which has attracted a list of blue chip clients and is trading profitably a year after start up, and is seeking a Financial Director (Designate).

Reporting to the Managing Director, the role will encompass financial accounting, management information, systems development including computing, and certain company secretarial and administrative duties. Early prospects of a directorship are offered, together with a progressive package including a share scheme. This is an opportunity to work with a dynamic team in developing an exciting business.

Applicants should be commercially aware chartered or certified accountants, aged 30 – 40 with service industry experience, ideally in the media sector.

Please write in complete confidence enclosing a curriculum vitae with salary details, quoting reference 11130 to:

Peter Childs
Pannell Kerr Forster Associates
New Garden House
78 Hatton Garden
London EC1N 8JA

Pannell Kerr Forster Associates
MANAGEMENT CONSULTANTS

Finance & Operations Director, International advertising agency group, London

The company has an outstanding professional reputation, is privately held and continues to grow rapidly from its own resources.

The position

Reporting to the Group Board, the person appointed will work closely with the CEO and a small HQ staff on day-to-day management of some 20 subsidiaries in 10 countries.

Responsibilities

These cover a wide range of general management and financial areas:

- Organisation & legal
- Budgeting & financial reporting, consolidation & management accounting
- Treasury & banking relations
- Supervision of 2 senior financial staff in HQ
- Functional responsibility for financial staff in subsidiaries.

Requirements

Basic training in a big-eight audit firm and/or training in financial management in a multinational company, preferably with working experience outside of the UK. Age, sex & nationality are open; however candidates should be fluent in English and at least 1 major European language.

Reply to Box no: T6604, 10 Cannon Street, London, EC4P 4BY

ADVERTISING AGENCY

We are a medium sized agency with expertise in Business, Industry and Corporate Commonication. Having just been acquired by a major worldwide agency, we have the backing and support for fast growth, including acquisitions of our own, propably funded by our parent company.

We have a young, aggressive, commercially orientated management team and are looking for someone to come in and take over all responsibility for finance, accounts, general corporate growth and the reporting to our parent company from our retiring chairman.

He or she would need to be a professional, experienced, but most of all shrewed, enterprising and someone who thrives on the cut and thrust of business, accounts, profitability, financial controls and acquisitions etc.

Impressive prospects for suitably qualified candidate.

Please apply in confidence to:
The Chairman, Box T6937, Financial Times,
10 Cannon Street, London EC4P 4BY

GROUP MANAGEMENT ACCOUNTANT

Berkshire — Up to £30,000 + Car

Our client is a highly successful, multi-national Company specialising in the design and installation of a wide range of advanced electronic equipment.

Due to internal promotion, a unique opportunity has arisen for an experienced, well qualified Management Accountant, aged 28+, to be responsible for all manufacturing accounting and MIS functions.

Reporting to the Financial Director, the successful applicant must be a commercially-minded, numerate accountant with experience of computer systems encompassing product costing and inventory control. The ability to liaise effectively at all levels is essential, along with the excellent man-management and persuasive skills necessary to manage and motivate a small, yet highly efficient team. Knowledge of international transactions would be a distinct advantage.

In return our client offers an excellent salary which reflects the importance of the position, company car and all benefits associated with a major, progressive company. Relocation assistance will be provided where necessary.

To apply please send a full C.V. quoting reference no FT/1, listing separately any companies to whom you do not wish your details to be sent to:

Kath Boakes, Account Manager,
Hoggett Bowers Advertising, Grove House,
551, London Road, Isleworth, Middlesex, TW7 4DS.

All applications will be forwarded directly to our client who will conduct the interviews.

HBA

HOGGETT BOWERS ADVERTISING

ESD

FINANCE DIRECTOR

Salary is negotiable to £30,000 + car + benefits

An expanding and profitable publicly quoted group with a turnover of £28 million seeks a Finance Director for a subsidiary company which is a leading industrial company in its field.

Based in Hampshire the successful candidate will be 27+ and must have had first class professional training. He/she will show the potential for promotion to support the Group Managing Director in the assessment of future acquisitions and the financial control of the growth of the Group.

To apply, please write quoting ref DA.826 to the Managing Director, Executive Selection Division, 18 Grosvenor Street, London W1X 9FD.

ESD is the Executive Selection Division of EAL International

ACCOUNTANTS FOR BANKING

ACA for American bank. 23-27 years, newly qualified/up to 3 years post-qualification experience. The successful applicant will have trained with one of the large firms and now wish to make a career in banking. Must have the potential to progress to management at an early stage. Salary c£23,000 with excellent fringe benefits including mortgage subsidy.

Part-qualified accountant for Project Team in international bank. The tasks are varied and interesting and there are opportunities to progress. 23-27 years. Salary to £18,000 plus bonus and mortgage subsidy.

Please telephone Shelagh Arneil on 01-583 1611 or send cv to her in confidence: ASB INTERNATIONAL RECRUITMENT, Fleet Street, London EC4Y 1BE.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Thursday June 23 1988

Genentech steps up action over TPA sales

By Louise Kehoe in San Francisco

GENENTECH, the US biotechnology company involved in a major patent dispute with Britain's Wellcome Foundation over rights to manufacture TPA (tissue plasminogen activator), a heart treatment drug, has stepped up its efforts to prevent Wellcome from selling a rival form of the drug.

TPA is widely regarded as the first "blockbuster" product to emerge from the biotechnology industry. Genentech's TPA sales have soared to more than $100m since it won Federal Drug Administration approval for clinical use in the US last November.

On Tuesday, Genentech won broad US patent coverage for TPA, which it sells under the trade name Activase, through a patent issued to Innovi NV, a patent agent for the University of Leuven in Belgium where TPA was first purified. Genentech holds an exclusive licence to TPA granted by Innovi in 1983.

Innovi and Genentech immediately filed a patent infringement suit against rival TPA developers Wellcome Foundation, its US subsidiary, and Genetics Institute, a Massachusetts biotechnology company that developed the strain of TPA used by Wellcome.

The US suit seeks an injunction to prevent Wellcome and its US affiliates from producing or distributing TPA in the US. Wellcome has been expected to apply for FDA approval for its TPA product this year.

The suit coincides with Genentech's appeal against a UK court ruling in a related patent dispute with Wellcome, which is expected to begin in London next week. Last year the High Court overturned Genentech's British patents covering the process to make TPA as "overly broad."

INTERNATIONAL GROUP MAKES 'STRATEGIC INVESTMENT' IN UK ELECTRONICS COMPANY

C&W confirms 2.8% Racal stake

BY HUGO DIXON AND PHILIP COGGAN IN LONDON

CABLE & WIRELESS, the international telecommunications group, has bought a 2.8 per cent stake in Racal, the UK electronics company.

Sir Eric Sharp, C&W's chairman, yesterday called the stake e "strategic investment." He would not be drawn on what he meant by "strategic", except to say that it was not for "my pension fund".

His statement came two months after Racal announced plans to float Vodafone, its mobile telecommunications subsidiary, as a separate entity on the stock market in what was widely seen as a defensive move to deter possible predators. The immediate effect was to boost Racal's share price, as analysts put values of £1.2bn ($2.1bn) or more on Vodafone.

This fuelled speculation that C&W would make a full bid for the company, creating a giant capable of challenging British Telecom in a full range of telecommunications services.

The main attraction of a bid would be to combine Vodafone, with Mercury Communications, a C&W subsidiary.

Mercury is BT's only UK competitor for providing mainstream telephone services, while Vodafone is its only competitor in tha fast-growing mobile telecommunications market. Combining the two businesses could bring Mercury benefits in managing its telephone network and marketing its services, as well as furthering C&W's aim of reducing its exposure to Hong Kong.

However, Sir Eric said there would be "synergies which could be interesting" in combining the two businesses. C&W would be "pleased" to receive a UK mobile telecommunications licence.

Racal's share price, which had been 247p before the Vodafone announcement, closed up a further 12p at 340p last night.

However, analysts felt it was unlikely that C&W would make a full bid. Mr Frank Brooke, an analyst with Kleinwort Grievson, said he thought C&W would now find Racal too expensive.

Sir Eric denied he had ever suggested a friendly merger with Racal, but refused to say whether he had met Racal to discuss the stake. He had confirmed the stake because it had been a matter of speculation.

Racal refused to comment. C&W also announced a 5 per cent increase in pre-tax profits to £356m in the year to end-March.

Lex, Page 18; Results, Page 24.

SE probe into Farmers options

BY JANET BUSH IN NEW YORK

THE PHILADELPHIA Stock Exchange is investigating possible trading violations involving stock options in the shares of Farmers Group, currently fighting off a $4.5bn takeover bid from Britain's BAT Industries.

The exchange said yesterday that it suspected that several traders exercised options after the deadline of 17.30 on Friday which allowed them to take advantage of news later that evening that California's insurance commssioner had blocked BAT's bid.

The decision had not been expected and threw BAT's prolonged efforts to gain control of Farmers, the insurance group, into disarray.

On Monday, Farmers Group shares plunged $6.25 to $56.75 and Philadelphia Stock Exchange officials estimated that the traders who defied the deadline made $3m to $4m.

It was not worth exercising the options before the market closed on Friday because they entitled traders to sell at $60 a share and Farmers Group stock closed at $62. However, by exercising options illegally after the deadline, these traders were able to take full advantage of the share price plunge on Monday morning.

In a statement, Mr Richard Chase, executive vice president of legal and regulation and compliance, said that the exchange believed it had identified all the member firms who had exercised the options after the deadline and that they could face fines, censor or suspension.

He said that 90 per cent of put options (options to sell) on Farmers Stock expiring last Friday had been exercised despite offering a loss for traders based on Friday's closing price. This suggests that the defiance of the deadline was very widespread.

Bank of New York threatens to halt bid

BY OUR NEW YORK STAFF

BANK OF New York yesterday threatened to withdraw its latest $75 a share bid for Irving Bank by noon today and return to the courts in an attempt to consummate an earlier tender offer, which is worth 10 per cent less.

BNY's announcement was made after the Irving board delivered an inconclusive response to its suitor's sweetened offer.

The Irving directors held a five-hour meeting to discuss the BNY proposal on Tuesday. This ended with an ambiguous statement, which welcomed the higher price of the revised offer and the "new attitude" expressed by BNY, but also called for a long list of conciliatory actions to demonstrate BNY's good faith.

The board has suggested, for example, that BNY should stop trying to persuade the Federal Reserve to block the rival offer for Irving from Banca Commerciale Italiana.

The earlier BNY offer faces two big legal impediments - the New York State anti-takeover law, which would prevent BNY from merging with Irving for up to five years, and a poison pill arrangement which could make it prohibitively expensive for BNY to operate Irving.

Former BT head retirement deal worth £900,000

By David Waller in London

SIR GEORGE JEFFERSON, former chairman of British Telecom who quit last September in the face of a barrage of criticism about the company's services, left with a pension package and compensation worth nearly £900,000 ($1.6m).

Details of the former chairman's retirement package are to be found in BT's latest report and accounts, sent to shareholders yesterday. It emerges that BT bought Sir George an annuity in lieu of a pension, at a cost of £866,088.

According to the report, Sir George was not eligible for membership of the company's fully funded pension scheme. The former chairman's pension was not to be funded but determined by the Secretary of State for Trade and Industry, in line with what the report says is standard procedure for nationalised industries.

On top of the annuity, the 67-year-old Sir George received emoluments of £67,848 for his service between April and September and an undisclosed part of BT's total compensation payments of £286,703.

Zenith bid speculation after 7.1% stake move

By James Buchan in New York

ZENITH ELECTRONICS, the last US-owned maker of televisions, became the target of fresh takeover speculation on Wall Street yesterday with the announcement that a group of investors had built up a 7.1 per cent stake in the Chicago company.

Zenith stock, which has risen steadily this year amid hopes the company will sell the loss-making consumer electronics business, rose a further $1½ to $28⅞ yesterday morning after Brookhurst Partners said it owned 1.845m shares of the company.

The partnership, which was unknown on Wall Street before the announcement, said it intended to encourage Zenith's management to enhance stockholder values and may propose a combination with the company.

The announcement comes just a week after Zenith's largest union set speculation racing on Wall Street by saying Zenith was deep in talks to sell the TV and videocassette recorder business, which is suffering under intense Far East competition.

Analysts say the sale would leave Zenith operating a strong and growing business in high-quality personal computers and this would make the company highly attractive to a bidder. First quarter TV sales fell 18 per cent to $224m while the desktop and laptop business rose 29 per cent to $350m, due in part to Zenith's new picture tube technology.

But losses in televisions wiped out computer profits, and the earnings were only $400,000 or 1 cent a share in the first quarter.

Some analysts believe that Zenith's television brand name and distribution network could be worth up to $500m to a foreign company.

Seat cuts deficit to Pta3.3bn as sales surge 25%

BY TOM BURNS IN MADRID

SEAT, the car company bought from the Spanish Government by Volkswagen of West Germany two years ago, failed in its attempt to break even last year but has substantially reduced losses, posting a Pta3.3bn ($28.5m) shortfall in 1987 against Pta28bn at the time of the acquisition.

The improvement came after sales last year of 433,500 vehicles, a 25 per cent increase on the previous year. In its annual general report Seat said it had exported 157,000 cars, 30 per cent more than in 1986. Income from sales grew last year by 37.4 per cent.

At the Geneva Motor Show last year Mr Carl Hahn, the chairman of VW, had forecast an end to Seat's losses last year and a certain return to profitability before the end of the decade.

Seat is to raise its share capital to Pta120bn, with a Pta40bn increase underwritten by VW. The new funds will be devoted wholly to the company's Barcelona plant and to research and development.

The capital increase will raise the German group's share of Seat from the 75 per cent it acquired two years ago to 83.3 per cent. Under terms of the sale, VW will buy the Spanish Government's remaining equity in Seat by 1991.

A second domestic car manufacturer, Citröen Hispania, owned by the French PSA group, meanwhile, posted profits of Pta10.8bn, up by nearly Pta8bn on those of last year.

Citröen's recovery in Spain follows a fiscal incentive salvege plan agreed with the Government three years ago. The company, conforming with that agreement, said profits were earmarked for voluntary reserves and that it would not be issuing a dividend.

Citröen said it would be investing a total of Pta28bn in Spain over the next four years with the aim of producing 1,000 cars a day at its plant in Vigo, north-west Spain, by 1991. The company sold more than 90,000 cars last year and expects to raise the figure to 125,000 in the current year.

Saab-Scania falls by 36%

BY OUR STOCKHOLM STAFF

SAAB-SCANIA, the Swedish automotive and aerospace group, reported a 36 per cent drop in profits before appropriations and taxes to SKr605m ($99m) in the first four months of this year.

Mr Georg Karnsund, chief executive, blamed the decline on a three-week strike by key white-collar workers at the beginning of the year that halted production.

The lower dollar also hit earnings for the company's passenger car and aircraft divisions.

Mr Karnsund estimated that profits would be reduced by SKr750m this year - because of the strike - including SKr450m in the initial four-month period.

Saab-Scania is unlikely to compensate for the strike-related production loss, since it is already operating at near-capacity. Revenues held steady at SKr13.3bn.

Sales for the Scania truck division increased by 8 per cent to SKr5.2bn.

While truck sales are likely to remain strong, a labour shortage will limit the company's ability to increase production.

Turnover for the car division fell 7 per cent to SKr5.2bn, reflecting lower sales in the US. Aircraft division sales fell 11 per cent to SKr941m.

Brierley, Packer in bid for Bell unit

BY JOHN MCILWRAITH IN PERTH

SIR RON BRIERLEY and Mr Kerry Packer have attempted to block Bond Corporation's proposed acquisition of the Bell Group, Mr Robert Holmes à Court's flagship, with a A$77m (US$63.6m) bid for a cash-rich subsidiary.

The bid announced yesterday for J.N. Taylor Holdings, the smallest of the three listed companies in the Bell empire, comes in the midst of labyrinthine court actions by several of the contestants.

Turnbridge, a company owned by Sir Ron and Mr Packer, is offering A$2.10 a share for J.N. Taylor, five cents a share above the closing market price yesterday.

In addition to an investment portfolio, J.N. Taylor has cash reserves estimated at A$200m. But it is its strategic value that has attracted the two bidders. Because Bell Group owns 45 per cent of J.N. Taylor, it is a key aspect of Mr Alan Bond's takeover, in which he is offering A$2.70 a share for the group.

His other, and more crucial objective, as yet unstated, is Bell Resources, for which Mr Packer and Mr Brierley have announced a bid of A$1.50 a share. However, a legal challenge from Bell Resources has prevented the formal launching of this bid.

Mr Bond has 19.9 per cent of Bell Group, which in turn owns 43 per cent of Bell Resources.

As the J.N. Taylor offer was being made yesterday, court hearings on two issues continued in Perth. One related to a bizarre situation in which two groups, one headed by Mr Holmes à Court, the other by Sir Ron and Mr Packer, claim to have conducted Bell Resources' annual meeting a few weeks ago.

The other hearing is to answer the question whether a confidential report prepared by the National Companies and Securities Commission on the purchase of shares in Bell Group by the Western Australian State Government Insurance Commission should be available to Turnbridge.

The moves and counter-moves to gain control of Bell Group and Bell Resources are expected to continue for months; some analysts say there will not be a resolution before the end of the year.

However, yesterday's Packer-Brierley move was not a complete surprise. Some blocking manoeuvre against Mr Bond had been expected.

The J.N. Taylor bid was foreshadowed last Friday when Sir Ron, through his Industrial Equity (IEL), announced he had acquired 15.03 per cent of the company. It now seems likely that this will be sold to Turnbridge.

Yesterday, none of the parties would comment on the Turnbridge bid, but at the weekend a Bond Corporation official said IEL's acquisition was obviously a move to maximise its position in the Bell structure.

One potential obstacle to the Bond Corporation bid for Bell Group was surmounted last week, when it announced that funding for the A$528m acquisition had been arranged with Midland Bank and Hongkong and Shanghai Banking Corporation.

The IEL acquisitions of J.N. Taylor were made at between A$1.60 and A$1.95 from May 3 to June 16, and the partly paid shares at between A$1.10 and A$1.48 from May 4 to June 16.

Bell Group acquired J.N. Taylor in 1974 and, until two years ago, the subsidiary company was known mainly for its industrial operations.

It achieved prominence in 1986 after raising more than A$190m through a preference share issue. However, an unhappy expedition into Sears share register in the UK, involving a big volume of put options, revealed serious weaknesses during the October crash.

The Sears holding was sold in December for A$417m, creating a pre-tax loss for J.N. Taylor of A$57m.

IBJ announces record Y279bn rights issue

BY DAVID LASCELLES IN LONDON AND STEFAN WAGSTYL IN TOKYO

INDUSTRIAL BANK of Japan, the largest of the country's long-term credit banks, yesterday announced a record Y279bn ($2.2bn) rights issue, only nine months after making a Y213bn cash call on its shareholders.

The issue, scheduled for September, will be on a two-for-25 basis at Y1,600 per share, compared with the stock's Y3,280 closing price last night. IBJ said the proceeds would be used for working capital.

This capital-raising exercise is the latest of many undertaken by Japanese banks as they strive to improve their capital position in the run-up to the new international capital convergence accord.

The accord, due to be finalised shortly by the Cooke Committee in Basle, will lay down minimum capital standards for all the world's leading banks.

Japanese banks, whose capital ratios are low by international standards, have the greatest amount of ground to make up.

IBCA, the London-based credit analysis group, recently estimated that Japan's three long-term credit banks would need an additional Y963bn to meet the Cooke standards.

They, along with the city or commercial banks, have been tussling behind the scenes for places in the queue to raise funds. All want to take advantage as soon as possible of the record levels of the Tokyo stock market, which reduce the costs of equity-linked funds.

As a group, the country's commercial banks have got off to a flying start in raising the funds they will need to meet the capital adequacy standards proposed by the Bank for International Settlements.

They gathered more than Y1.5 trillion (million million) in the last year. However, this is only the beginning of a five-year programme which analysts say will have to raise between Y7 trillion and Y8 trillion in equity and convertible bonds.

The total is less than 10 per cent of the market capitalisation of the banking industry. Nevertheless, there are some fears over the impact bank issues could have on the market as a whole.

Mr Nozomu Kunishige, an analyst at Citicorp Scrimgeour Vickers, the broker, wrote recently in a report: "There is always a risk . . . of precipitating another stock market crash or crowding-out other companies' issues."

However, the new capital adequacy standards cannot be met by fund-raising alone.

Banks are also having to cut greatly the speed at which they have expanded for most of this decade. Profits rather than assets has become the new watchword in Tokyo.

Nomura Research Institute estimates that in order to limit their fund-raising to between Y7 trillion and Y8 trillion, Japanese banks will have to slow asset growth to between 7 and 8 per cent a year – down from an average of 12 to 13 per cent annually over the past 10 years.

Jardine Fleming to set up securities firm in Taiwan

BY KEVIN HAMLIN IN HONG KONG

JARDINE FLEMING, the Hong Kong-based merchant banking group, is to set up a joint-venture securities firm in Taiwan with Bank of Communications and First Commercial Bank, two of the country's leading government-owned banks.

The firm, which will have paid-up capital of NT$1bn (US$34.8m), has been granted an "integrated securities house" licence by Taiwan's Securities and Exchange Commission, which Jardine Fleming claims is the first for a concern with a significant foreign shareholding.

The development follows recent changes to Taiwan's securities laws. An integrated licence allows a firm to act as broker for local shares, underwrite new issues, and trade securities on its own account. The Jardine Fleming-led firm, probably to be called Taiwan International Securities Company, has also been given government permission to apply for a seat on the Taiwan Stock Exchange.

Shareholding details of the firm, which is expected to commence business in January 1989, have not been disclosed. However, under Taiwan law, foreign investors can hold collectively a maximum 40 per cent stake in such a firm.

Jardine Fleming, which will act as managing partner with responsibility for day-to-day operations, said a number of leading Taiwanese and foreign firms would hold minority stakes.

Jardine Fleming is a joint venture between Hong Kong-based Jardine Matheson and London's Robert Fleming.

Bank of America to raise capital in Egyptian bank

BY TONY WALKER IN CAIRO

BANK OF AMERICA and its Egyptian and foreign partners are increasing the capital in the lossmaking Misr American International Bank by E£30m ($13m), to E£45m.

Banque du Caire, one of Egypt's Big Four public sector banks, has been brought in as a 17 per cent shareholder in an effort to strengthen MAIB's performance and broaden its customer base.

Bank of America, which has a 40 per cent stake in MAIB, appears, for the time being, to have abandoned attempts to sell its share.

Mr Omar Sakr, manager of Bank of America in Egypt, said the restructured MAIB hoped to benefit from Chase Manhattan's withdrawal from the Egyptian market. Last year Chase sold its stake in Chase National, a joint venture with the National Bank of Egypt.

Mr Sakr said one of MAIB's targets was the US multinational presence in Egypt. He said efforts were also being made to "clean up and revamp" MAIB. Strict credit policies were being applied.

Other shareholders in the joint-venture bank include the National Bank for Development and the public sector Misr Insurance company. Like Banque du Caire, these institutions will have a 17 per cent share each, giving the Egyptian public sector partners a controlling interest.

Other shareholders include the Kuwait Real Estate Bank and Red Sea Enterprises, both of which have a 4.5 per cent interest.

Wormald faces offer from joint venture

HANIMEX, A Sydney-based photographic group, and the local arm of Chase Corporation, a New Zealand property and investment company, are to bid for half of each shareholder's stake in Wormald International, the Australian fire protection and security group, Reuter reports from Sydney.

A joint-venture company called Bainton will offer two Hanimex shares plus A$1.25 cash for every three Wormald shares, Hanimex and Chase said.

The bid values Wormald shares at A$2.15 each, based on Hanimex's current share price of A$2.50. This puts a value on the target company of A$387.6m (US$320m).

The bid is conditional on acceptances for a minimum of 16.6 per cent of Wormald equity and on Wormald shedding a 23 per cent stake in itself by accepting the Bainton offer or cancelling the shares.

Chase, which has a combined stake of 19.7 per cent in Wormald with its associate Reil Corporation, has been urging that the group be broken up and capital be returned to shareholders. The move yesterday was described as being aimed at a demerger.

The bid came after Wormald said it proposed to sell the major part of its security business worldwide for a sum it expects to be well in excess of A$100m.

Mr Bill Wavish, Chase chairman, said: "The best interests of all shareholders would be served by a full international tender of each operating unit."

He said Chase believed the 23 per cent stake Wormald had in itself should be cancelled rather than sold, either of which is required by the Australian Companies Code at present.

Wormald's shareholding in itself was one offshoot of the group's chequered history over the past year or more.

When Wormald was controlled by Mr Lee Ming Tee, the Malaysian-born businessman, he arranged for it to take over his listed Sunshine Australia investment group, the main asset of which was a 37 per cent stake in Wormald's then capital.

After Mr Lee moved on, Reil planned to assume control but the deal was killed by the stock market crash.

INTERNATIONAL COMPANIES AND FINANCE

WestLB and Helaba close to decision on merger

BY HAIG SIMONIAN IN FRANKFURT

THE MANAGING boards of Westdeutsche Landesbank (WestLB), West Germany's fourth biggest bank, and Hessische Landesbank (Helaba) hope to reach a decision within the next month on their long-rumoured merger, which would form Germany's second biggest bank with assets of almost DM227bn ($130bn).

However, the timetable may prove unrealistic given the need for shareholder approval. WestLB and Helaba are owned by the state governments of North Rhine Westfalia and Hesse respectively and by regional savings bank organisations in each state. It may not be possible to reach agreement prior to the summer political break in both states.

Both banks, which have been looking into the possibilities of a merger for some time, last month received a confidential report prepared by a leading firm of US management consultants. A summary has been sent to the bank's owners.

According to the study, the banks will only realise the full business and marketing advantages envisaged if a merger is rigorously implemented and strict lines of command are imposed. The suggestion that the banks might first pursue some more limited form of co-operation is believed to have been rejected.

While the Hesse state government is keen on a link, which it believes will further consolidate Frankfurt's position as Germany's financial centre, there could be greater reservations on the North Rhine Westfalian side, where the authorities are believed to be interested in the effect of a merger on state finances.

Though consistently profitable, WestLB only resumed dividend payments to its shareholders in 1986 after a lengthy gap, during which earnings were ploughed back into bolstering debt provisions.

BfG improves profits by 3%

BY OUR FRANKFURT STAFF

BANK für Gemeinwirtschaft, the large West German bank owned by the Aachener und Muenchener insurance group, improved partial operating profits by just over 3 per cent to DM136.4m ($78m) last year.

The results, which come against a background of generally lower profits among German banks, have to be seen against BfG's depressed results in the past two years when earnings were badly dented by uncertainty about its future.

However, Mr Thomas Wegscheider, BfG's chief executive, said it was well on the way to recovery. He emphasised the benefits of its links with its new parent, which would only be fully realised in 1989.

The positive trend seen in 1987 has accelerated this year, he said. Partial operating profits are 34 per cent above the average for five months of 1987, and "appreciably higher" than the corresponding period last year. Full operating profits, which include gains from own-account trading, are "also about 30 per cent up," and the bank is forecasting higher earnings for the year as a whole.

The bank's restructuring programme, leading to the closure of some branches and concentration on a smaller number of regional head offices, has helped to contain costs, which rose by only 2.3 per cent to DM992m last year.

Staff numbers have also been cut, with the workforce declining by 500 between the end of 1986 and mid-1988. Costs should actually fall this year, said Mr Wegscheider.

The bank is also starting to exploit its synergies with the Aachener und Muenchener. A new mortgage banking subsidiary, BfG: Hypo, which combines banking and insurance expertise, is due to open shortly. Moreover, BfG Service, the newly-created insurance marketing subsidiary, is already active in 30 branches. The number should increase to 70 by the end of this year and about double that in 1989.

Solvay in link with Carnaud

By Our Financial Staff

SOLVAY, the Belgian chemicals group, and Carnaud of France have agreed to co-operate in the French plastic packaging market. Carnaud is France's leading producer of metallic and plastic packaging.

Solvay said it aimed to become one of the leading food packaging firms in Europe.

The company added that Carnaud will take over the bottle-making activities of Solvay's Société Bourguignonne d'Applications Plastiques (BAP) unit.

Moulinex sees growth

BY OUR PARIS STAFF

MOULINEX, the French kitchen appliance group, expects profits to continue rising this year after a recovery to net profits of FFr12m ($2m) in 1987. The company lost FFr238m in 1986.

Mr Roland Darneau, the managing director, said sales should rise by at least 20 per cent this year to FFr4bn from FFr3.4bn last year. He said sales in the first five months of 1988 had grown by 35 per cent in France, by more than 50 per cent in West Germany, by 40 per cent in the UK and by about 75 per cent in Scandinavia.

The company is building a plant in Egypt and is planning investments in Turkey, the Soviet Union, China, India, Eastern Europe and South America. In North America, Moulinex is regrouping its assets and is planning to use its Mexican subsidiary to supply directly its North American operations.

Mr Darneau also said the company intended to pursue acquisitions as well as relying on internal growth.

Referring to the Moulinex's delayed management buy-out plan, he said the company's future had been safeguarded.

CRA and NB Hill in base metals merger plan

By Gordon Cramb

CRA, the Melbourne-based mining company which is 49 per cent owned by RTZ of the UK, is to combine its base metals operations with those of North Broken Hill Holdings, creating a company with sales of A$1.5bn ($1.25bn) which would be the world's biggest zinc producer.

The deal comes at a time of strongly rising metal prices, in which zinc has almost doubled since the start of the year.

It also signals a renewal of a strong trend towards transnational link-ups among producing companies in an effort to co-ordinate supply and keep down costs.

The initial spur for such associations was the oversupply and weak base metal values of earlier years, but CRA and North said yesterday that their link still held significant financial advantages.

The ventures leave separate the domestic marketing of zinc but will embrace production worldwide and international sales. This includes several facilities in Europe, such as the Avonmouth smelter in Bristol.

They are to spend A$650m in the next five years to upgrade and modernise production.

CRA added that growth in zinc consumption would by some estimates be no more than 1 per cent a year, while lead consumption might decline.

Of links elsewhere, the most significant is the complex grouping which includes Metallgesellschaft of West Germany, Asarco in the US, Cominco and Teck of Canada — and, in Australia, MIM Holdings. According to the London-based Metals & Minerals Research Services, these with other associated producers have a potential influence over a fifth of non-East bloc zinc output.

It sees the CRA/North merger as a countervailing force "of essential value in removing the temptation to abuse market power by any other international association."

CRA/North will together have complete control over Australia's 330,000 tonne annual capacity for primary refined zinc.

Lyonnaise expects 15% earnings rise

BY PAUL BETTS IN PARIS

LYONNAISE des Eaux, the French diversified water company which is bidding £47m ($83.6m) for Essex Water of the UK, expects net profits excluding minority interests to top FFr500m ($84.3m) this year, a gain of around 15 per cent.

Mr Jerome Monod, the chairman, also indicated yesterday that Lyonnaise des Eaux intended to grow vigorously by international expansion and diversification. He said that Lyonnaise had acquired stakes in UK water companies other than Essex. UK water interests, said Mr Monod, covered about 2m people in contrast to the 20m people served by group water operations in France and abroad.

Lyonnaise's expansionary strategy was reflected in its investment spending, which shot up to FFr2.68bn last year from FFr1.36bn. Financial investments and acquisitions rose even more sharply, accounting for FFr1.5bn of last year's total investments compared with FFr240m in 1986.

Apart from the drive into the UK water market ahead of the privatisation of UK water authorities, Lyonnaise has been actively developing its water activities in Spain and Portugal and has recently formed a joint venture with the Italian Fiat group to offer water distribution and treatment services to Italian local authorities. The company has also invested in building up its presence in tha North American and Far East water treatment and distribution business.

Lyonnaise des Eaux has also pushed into the media business, acquiring 25 per cent of M6, France's sixth television channel, and buying 5 per cent of Havas, the media and advertising group.

Mr Monod said the group's cable television operations were expected to be in balance by 1991, four years after their start-up. These operations include the Paris cable network, which is expected to become Europe's biggest. The M6 channel, which lost FFr371m last year, is expected to continue losing money until 1990. The network's losses are expected to total FFr320m this year, FFr350m next year and between FFr100m to FFr150m next year, Mr Monod said.

Mr Monod also disclosed that Lyonnaise did not plan to hold on indefinitely to its 1.65 per cent stake in Société Générale de Belgique, which it acquired in support of the Suez group in its bid for the Belgian holding company.

He also explained that apart from backing Suez, which is the principal shareholder of Lyonnaise des Eaux with 19 per cent, his group had direct interests with subsidiaries of La Générale in cable and water distribution.

Lyonnaise des Eaux is also planning to expand in the leisure service business including in the development of golf courses in France. The group recently acquired a 2.1 per cent stake in Club Mediterranee for FFr97m and plans to develop jointly with tha Club Mediterranee group tourist facilities and services.

Spain sells Williams and Humbert to wine maker

BY OUR MADRID STAFF

WILLIAMS AND HUMBERT, the sherry concern that formerly belonged to the Rumasa conglomerate, is to be sold by the Spanish Government to a local wine producer. The move will bring to a close the complex reprivatisation process of the banking and business empire that was expropriated from Mr Jose Maria Ruiz-Mateos in 1983.

The buyer is Antonio Barbadillo, a profitable family-owned sherry company that has pioneered the production of light table wines in the Jerez area.

Barbadillo has paid Pta1.5bn ($12.9m) for the company and has accepted its liabilities, which are in excess of Pta3bn. The acquisition puts Barbadillo in the top league of sherry producers with combined stocks of 120,000 butts.

Barbadillo's immediate concern is to trim Williams and Humbert's 235 labour force in an effort to stem losses. Barbadillo, which has an equivalent production volume, has 96 employees.

Williams and Humbert, which was bought from family interests by Mr Ruiz-Mateos in 1971 and became the cornerstone of the sherry business on which he built up Rumasa, proved to be the most difficult sale of the reprivatisation programme due to a long-running legal battle in London over the ownership of the company's Dry Sack trademark.

"The techniques change. The principles don't."

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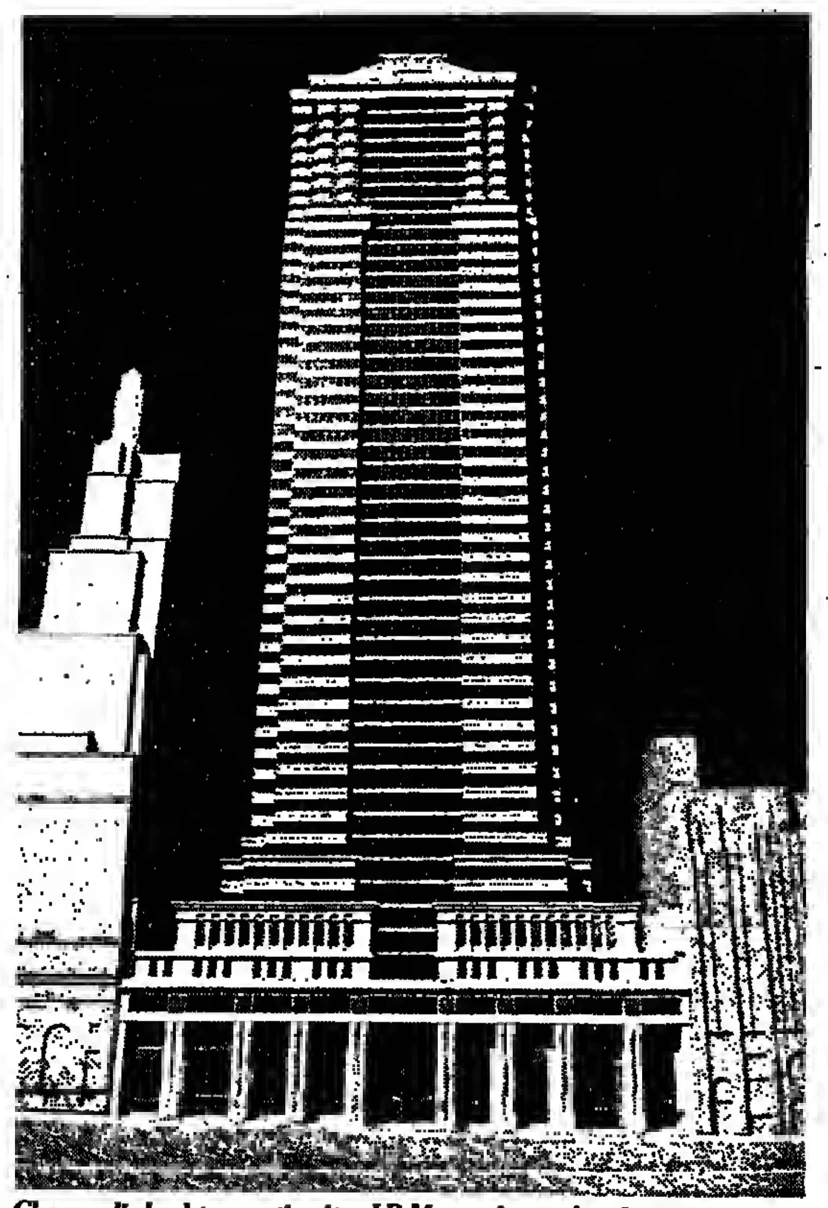
In everything we do the client's interests come first, a way of doing business that produces impartial, objective advice on any matter, however confidential. Many years ago J.P. Morgan himself said it best: "The client's belief in the integrity of our advice is our best possession."



Change linked to continuity: J.P. Morgan's new headquarters rise on Wall Street two blocks from where the firm has had its principal offices for more than a century.

JPMorgan

Stronger dollar improves sentiment through sectors

BY DOMINIQUE JACKSON

A STRONG performance from the dollar on the foreign exchanges, rising to eight-month highs against the D-Mark in Europe, was the prime factor behind a firmer trend to the Eurodollar sector of the Eurobond market.

The stronger dollar propelled the US Treasury market sharply higher and improved sentiment through other sectors, prompting four new US dollar straight issues and a rash of Canadian dollar bonds.

Sterling-denominated bonds finished the day narrowly mixed in response to a long-anticipated ½ per cent rise in UK base rates to 9 per cent. The gilt-edged and Eurosterling markets traded higher immediately after the rate-rise announcement but fell back later on limited profit taking in low turnover.

The day's dollar straight issues benefited from fortuitous timing, given the Treasury market rally. IBJ International led a $200m issue for the Metropolis of Tokyo, a prized name. The five-year deal at 9¼ per cent and 101⅞ came at a spread of 51 basis points (hundredths of a percentage point) over comparable US Treasury issues.

The deal saw brisk demand and during the day the spread narrowed to below 50 basis points. It was bid at a discount of 1.65 against total 1⅞ fees. The deal met healthy demand in the UK and the Middle East and some was sold to the Far East, most of it was to non-Japanese accounts.

Nikko Securities' $100m deal for Nordic Investment Bank, a five-year issue at 9⅛ per cent and 101⅛ was deemed fairly priced at a launch spread of 57 basis points over Treasuries. Dealers said the smaller size of the issue could limit its appeal. It was bid at a discount of 1⅝ against fees of 1⅞.

However, market attention was captured by the Canadian dollar sector which appears to go from strength to strength, illustrated by sustained healthy demand and little overhang of new paper, despite remarkably heavy new issuance over the last 10 days.

Dealers said the Canadian dollar continued to attract investors still not completely happy with returning to the US bond markets in force, with the Canadian dollar sector still offering an attractive yield premium over the US market.

The day saw four new deals totalling C$865m. UBS Securities brought two. The first was a C$100m five-year issue at 10⅛ per cent and 101⅞ for La Caisse Centrale Desjardins du Quebec, the co-operative funding bank for the

INTERNATIONAL BONDS

province of Quebec-based Desjardins group. The issue, which came at a spread of 76 basis points over comparable Canadian government bonds was bid at a discount of 1⅝ against fees of 1⅞.

UBS also brought Bell Canada to the market with a C$125m deal at 10⅛ per cent and 101⅛ which matures in 1999. The spread at launch was 72 basis points and the deal was bid at a discount of 2.10 against fees of 2⅛.

Dresdner Bank led a C$100m issue for BMW Finance, a seven-year deal at 10⅛ and 102 which was deemed to be a little on the tight side by dealers.

However, the name is expected to ensure excellent demand from retail accounts in Germany, Switzerland and the Benelux, where a substantial amount of the new Canadian dollar paper is eventually ending up, although many smaller investors often wait until after the payment date before adding the paper to their portfolios.

Continental European interest is also expected to ensure steady demand for a smaller C$40m deal for BASF Canada, backed by the West German parent. The five-year deal carried a 10 per cent coupon and was priced at 101⅝. The issue was bid at a discount of 1¼ against fees of 1⅞.

In equity-linked issues, Nikko Securities brought consumer electronics company Best Denki to the Japanese warrant sector with a $200m five-year issue with an indicated coupon of 4⅛ per cent.

Daiwa Europe led a $100m deal with warrants for Toagosei Chemical. The coupon on the five-year deal is indicated at 4⅛ per cent.

Daiwa also brought the Council of Europe with a Y15bn four-year issue at 5 per cent and 101⅛. Despite the attractive name of the borrower, the issue was deemed rather small and also suffered from the poor tone of the secondary Euroyen markets. Prices slipped to their lowest levels so far this year early yesterday, although recouping some losses later in the day.

IBJ International led an even smaller Y10bn issue for Finland's Okobank. The five-year deal was pitched at 5 per cent and 101⅛. The issue is not expected to trade widely.

In Ecus, Merrill Lynch Capital Markets led a Ecu50m deal for Swedish Export Credit which will be fungible with the borrower's previous two deals which came through Banque Paribas Capital Markets. The new four-year deal carries a 7⅞ per cent coupon and is priced at 101⅛.

Nomura brought a $100m deal for BP America, similar to its issue for the same borrower last week. The one-year deal at 10⅛ per cent and 101⅞ is not expected to trade widely.

In West Germany, Deutsche Bank led a DM200m five-year issue at 5⅛ per cent and 101⅞ for a Dutch-based financing unit of French conglomerate Saint Gobain.

In Switzerland, Banque Paribas (Suisse) led a SFr65m five-year convertible deal for Japan's Sanyo Coca Cola Bottling Company on which the coupon is indicated at ¾ per cent.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on June 22

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	†94¼	94¾	-0¼	-1	9.32
All Nippon Air 9⅜ 97	100	†96¼	96¾	+0½	-0⅜	9.97
American Brands 8⅜ 92	150	†99	99½	+0¼	+0½	9.09
A/S Eksportfinans 7⅜ 93	100	†94	94½	+0½	-2⅜	8.98
A/S Eksportfinans 7¼ 92	150	94⅞	95⅜	+0⅜	0	8.87
Barc. Bk. Fin. 10¼ 97	200	†102⅜	103⅛	+0½	-1⅜	7.95
Belgium 9⅜ 92	400	†100½	101	+0⅜	-1⅜	8.88
British Telecom 7⅜ 96	250	89⅞	90	+0⅜	-1	9.48
Cal.Natl.Telecom 8⅝ 93	160	†98⅜	99¼	+0⅜	-2⅜	8.75
Canada 9 96	1000	†98⅜	99⅜	+0⅜	-1⅜	9.19
Canadian Pac 10⅜ 93	100	†103½	104½	0	-0⅜	9.70
C C C E 7⅜ 91	113	†95⅜	95⅞	+0⅜	-1⅛	8.66
C.N.C.A 7¼ 91	150	†94⅞	95¼	+0¼	-0¼	8.95
Coca-Cola Ent. 8¼ 90	100	*†98¾	99¼	0	-0⅜	8.79
Credit Lyonnais 9 91	200	100⅜	101⅜	+0¼	-0⅜	8.53
Credit National 8¼ 93	200	96⅝	97⅜	+0¼	-0⅞	9.06
Credit National 7⅜ 92	100	95	95⅜	-0⅜	-0⅜	8.92
Credit National 7¼ 91	150	95¼	95¾	+0⅜	-0⅞	8.78
Denmark 7⅜ 92	500	94⅛	94⅝	+0⅜	-0½	8.96
E.E.C 7 91	100	95	95½	-0⅜	-0¼	8.62
E.E.C. 7¼ 93	250	93⅜	94⅜	+0¼	-0⅜	8.88
E.E.C 8¼ 96	100	†93⅜	93⅞	+0⅜	-0⅞	9.42
E.I.B. 7⅜ 93	100	94	94⅜	+0⅜	-0⅜	9.01
E.I.B. 9⅜ 97	150	†99⅜	99⅝	-0⅞	-1⅜	9.43
Elec.De France 9 98	200	†96½	96⅞	-0⅜	-0⅞	9.53
Finland 7⅜ 97	200	†90¼	90⅜	-0⅜	-0⅜	9.53
Finland 7½ 93	200	93¼	94⅛	+0⅛	-0½	8.97
Finn.Exp.Cd 8½ 92	200	98⅝	99⅛	+0¼	-0¼	8.84
Ford Motor Credit 8 91	250	†98¼	98⅝	+0½	0	8.66
Gen Elec Credit 10¼ 00	200	†101¼	101½	-0⅛	-0⅛	10.04
G.M.A.C 8 89	250	†99⅞	100¼	+0½	0	7.96
G.M.A.C. 8¼ 89	200	†100¼	100⅜	-0⅜	+0⅜	7.71
Hoesch 8¼ 97	100	†93¼	94¼	+0½	-0⅜	9.27
Italy 9 90	1000	101⅜	101⅜	-0¼	+0¼	8.27
L.T.C.B of Japan 8 91	100	98⅜	98⅜	-0⅜	-0¼	8.60
L.T.C.B. of Japan 8 97	200	89⅝	90⅛	+0⅜	-0¼	9.78
Mercds-Benz Cd. 8½ 95	100	96⅛	96½	+0½	-0⅜	9.26
Metropolis Tokyo 9½ 93	200	101	101½	+0⅛	-1¼	9.12
Morgan Guaranty Tst. 7 90	150	†97⅞	98⅜	+0⅜	0	8.18
Norway 8¼ 93	500	99	99½	-0⅜	-0⅜	8.93
Pepsico Inc 7⅜ 93	200	*†93⅛	93⅞	0	-1	9.04
Portugal 8¼ 91	300	98⅜	98½	+0¼	-0⅜	8.97
Prudential Crp. 8⅜ 94	125	†99⅜	99⅞	+0⅜	-0¼	8.83
Qantas Airways 10⅜ 95	140	†103¼	104¼	-0⅜	-1⅜	9.56
Saab Scania 9½ 91	125	†102½	103	+0½	-2¼	8.27
Saskatchewan 10⅜ 92	100	†104⅛	105¼	+0¼	-0½	9.06
State Bk S Aust 9¼ 93	100	†100	100½	-0⅜	-0⅜	9.16
Swedish Expt Crd 7¼ 91	100	†95	95½	+0¼	-0⅜	8.87
Swed Exp Cred 10 92	100	†103¼	103⅜	-0½	-1⅜	8.90
Sweden 7 91	250	95½	96⅛	+0⅜	-0¼	8.51
Sweden 7 92	250	†95	95½	-0½	-0¼	8.55
Sweden 8⅜ 96	200	96⅝	96⅞	-0½	-0⅜	9.39
Sweden 8½ 92	200	*†98⅝	99⅛	0	-0⅜	8.82
Victorian Rep 11⅜ 92	150	107½	108	+0¼	-0½	9.13
World Bank 7 92	300	†94⅛	95⅛	-0¼	-0½	8.69
World Bank 9 97	300	†97¼	98¼	+0¼	-0⅜	9.33
Yasuda Trust Fin 8½ 95	100	97	97⅛	-0½	-0⅜	9.24

Average price change... On day -0⅜ on week -0⅜

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 6 94	200	†101	101⅛	-0⅛	-0⅜	5.76
Avis Fin SVS 5⅞ 92	100	*†101¼	101¾	0	-0⅛	5.41
Bank of Tokyo 5⅜ 93	300	†103⅛	103⅛	-0⅛	0	4.89
Central BK. Turkey 7 92	200	†105	105½	-0⅞	-0⅛	5.57
Commerzbank o/s. 5⅜ 93	300	†99⅝	100⅜	0	-1¼	5.40
Degussa Int. 6⅛ 97	200	†98⅞	99⅜	-0⅛	-0¼	6.25
E.I.B 5½ 98	150	†96	96½	0	-0⅛	6.01
E.I.B 6 97	300	†99¼	99⅞	0	-0⅞	6.07
E.I.B 6⅛ 96	300	†100¼	100¾	0	-0⅞	6.04
E.I.B. 6⅛ 97	400	†100½	101	-0¼	-0⅛	6.01
E.I.B 6⅞ 95	300	†104⅛	104⅞	0	-0⅛	6.07
Euro.Coal&Steel 5⅞ 97	175	†97½	98	-0⅛	-1	6.21
Eurofima 6¼ 96	100	†100¼	101¼	-0⅛	-0⅛	6.09
Elec De France 5⅜ 97	300	†96⅛	97⅛	+0⅛	-0⅛	6.25
Forsmark Krfg 5⅜ 93	200	†100¼	100¾	0	-0⅛	5.00
I.A.D.B. 6 97	200	†98½	99	0	-0⅛	6.18
IBJ 5⅜ 92	100	†101⅛	101⅞	0	-0⅛	5.43
Japan Finance 5⅜ 97	300	†95½	96	0	-0¼	6.40
Ireland 6⅛ 97	300	†100	100½	-0¼	-0¼	6.46
Korea Dev BK 6⅛ 93	300	†102	102½	-0⅛	-0⅞	6.08
Malaysia 6¼ 94	150	†99¼	100¼	-0¼	-0¼	6.25
Nat. West BK PLC 6 98	300	†97½	98	+0⅛	0	6.31
Oesters. Kontbk. 5 93	300	†99¼	100¼	0	-0¼	4.99
Portugal 5⅜ 92	150	†101⅜	101⅞	-0⅛	-0⅛	5.36
Portugal 6¼ 95	150	†100	100⅜	-0¼	-1¼	6.58
Privatbanken 5⅜ 93	150	†99¼	99½	+0¼	-0¼	5.40
Royal Insurance 5½ 92	300	†101⅛	102⅛	0	0	4.90
Statoil 6⅛ 97	200	†97⅜	98⅛	-0⅛	-0½	6.53
Soc Gen. Nuclear 7⅜ 95	150	†104⅛	104⅜	-0⅞	-0¼	6.45
Westfb Finance 5 93	200	*†98¼	99¼	0	-0⅛	5.18
World BK 6⅛ 97	600	†99⅞	100½	-0⅛	-1⅛	6.22

Average price change... On day -0⅛ on week -0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev Bk. 5⅜ 96	100	†101½	102½	-0½	-0⅜	5.31
Asfinag 5 02	150	†98⅜	99	-0¼	-0⅛	5.11
Bk. Frgn.Econ Ussr 5 98	100	†100	100¼	-0¼	-0⅜	4.98
Bayer W/W 2½ 02	250	†99¼	99½	0	-0⅛	2.55
Bayer. Vrnsbk.Os. 4⅜ 98	100	†100¼	100⅛	0	+0⅜	4.68
Elec De France 5 07	100	†98¼	99	-0⅛	-0⅜	5.09
E I B 4⅜ 97	200	†100	100½	+0⅛	+0½	4.71
E.I.B 4⅝ 97	200	†99¼	99⅜	0	+0⅛	4.69
Enso Gutzeit 5 99	100	†99⅜	100	+0⅛	+0¼	5.01
Ireland 5 02	150	†98½	98¾	0	+0⅝	5.14
Nippon Suis Ksha 4⅝ 93	80	†102	102½	0	+0½	4.12
Occidentl.Petrol 5¼ 92	100	†103¼	103½	+0⅛	+0⅛	4.71
Prov of Manitoba 4¼ 02	200	†99	99¼	-0¼	-1	4.87
Prudential Fin 4⅜ 98	200	†99¼	99⅛	-0⅜	-0¼	4.81
Qantas Airways 4¾ 97	110	†97¼	97½	0	0	5.11
Trans-Can Pipe 4⅜ 94	100	†101¼	102	-0⅛	-0¼	4.54
Usi+g 5½ 96	120	†103½	104½	+0⅝	+1⅜	4.85
Victoria Pub Ath 5⅜ 03	118	†101¼	101⅛	+0½	+0⅛	5.22
World Bank 5 02	200	†99⅛	100	+0¼	+0¼	5.01

Average price change... On day 0 on week 0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅜ 92	55	101¼	101½	-0¼	-1	5.02
Belgium 4⅝ 94	45	96⅜	96⅝	-0⅜	-0⅜	5.33
Canada 4⅜ 92	80	98⅜	98⅜	-0¼	-0⅝	4.86
Elec De France 5⅛ 94	20	99½	99⅞	-0⅜	-0⅜	5.20
Ireland 5⅛ 93	30	99⅞	100⅜	-0⅜	-0⅛	5.15
Norway 5⅜ 95	50	98¼	99	-0⅜	-0¼	5.32
Rep. of Italy 5⅜ 92	150	102⅝	103	-0¼	-0⅞	4.86
Sweden 4⅜ 93	50	97⅜	98⅛	-0½	-1⅛	5.12
World Bank 5½ 92	50	102⅜	102⅝	-0⅛	-0⅜	4.83

Average price change... On day -0¼ on week -0⅜

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat BS. 10¼ 93 £	50	100⅜	101	0	-1⅛	10.04
Alg. Bk. Ned. 5½ 92 FL	150	100⅜	101⅜	0	-0⅛	5.14
Amro Bank 6¼ 92 FL	150	101½	102¼	-0⅛	+0⅜	5.76
Barc. Aust. 14 91 A$	20	100⅜	101⅜	-0¼	-0⅜	13.48
Barc. Bk. 10¼ 97 £	250	98	98½	-0¼	-1⅛	10.53
BP Capital 9⅜ 93 £	100	99	99½	0	-1⅛	9.93
British Airways 10 98 £	100	96⅛	96⅜	0	-1⅜	10.60
C.I.B C.Mort. 10⅜ 93 C$	100	†100¼	101¼	+0¼	-0½	10.43
Coop.Ctr.Rabo 6¼ 93 FL	100	102⅜	102⅞	0	-0⅜	5.60
Coop.Ctr.Rabo 6 92 FL	200	101½	102	0	-0⅜	5.50
Denmark 7⅜ 92 ECU	100	103¼	103¼	0	-0⅜	6.60
Deutsche Bank 9⅜ 97 £	75	†97½	98	0	-0½	10.26
Deut.Bk.Aust. 12¼ 95 A$	70	†97⅞	98⅜	-0¼	-0⅜	13.15
E I.B 10⅛ 98 C$	130	†98¼	98⅜	+0¼	-0⅜	10.36
E.I.B 8⅜ 93 LF	10	†101½	102½	0	-0¼	8.07
Elec.France 10¼ 95 C$	125	†99⅝	100⅜	-0¼	-0⅜	10.27
Euratom 7⅜ 97 ECU	145	95½	96	+0⅛	-1	8.06
Eurofima 7½ 92 FL	50	†106½	108½	0	0	5.29
Fed. Bus. Dv. Bk. 9⅜ 92 C$	75	†99⅜	100⅜	+0¼	-0⅜	9.78
Ford Cr.Can. 10¼ 93 C$	100	†102¼	102⅜	+0¼	-0⅜	10.05
Gillette Can. 9⅜ 93 £	70	95⅜	96⅛	-0⅜	-1⅛	10.70
G.M.A.C. 9⅜ 93 C$	150	†98½	99	-0¼	-0⅜	10.07
G.M.A.C. 9¼ 92 C$	75	†99⅞	100¼	0	-0⅜	9.24
G.M A.C Aus Fin 14 90 A$	50	100⅜	101⅜	-0¼	-0⅜	13.31
Halifax BS 10⅜ 97 £	100	†99½	100	0	-0¼	10.40
Heineken NV. 6½ 91 FL	150	†102¼	103½	0	0	5.17
Imp Chem Inds 10 03 £	100	96½	97	0	-1¼	10.43
Inv Industry Int. 10 93 £	60	99¼	99⅜	-0⅜	-1⅜	10.12
Lloyds Bank 10⅛ 98 £	150	96⅝	97⅜	-0⅛	-1¼	10.77
Mtge.Bk.Den. 6⅜ 91 FL	100	102⅜	103½	0	0	5.45
Nat.Australia 14 92 A$	50	100¼	101⅜	-0⅜	-0½	-0.10
Nat. West.Bk 13⅛ 92 A$	50	†101¼	102¼	-0¼	-0¼	12.45
Nationwide BS 10⅜ 93 £	75	99¼	99⅜	0	-1⅜	10.24
Ned.Midd.Bank 6 92 FL	150	101⅛	101⅝	-0¼	-0⅜	5.58
New Zealand 9½ 93 £	100	97¼	97⅞	+0⅛	-1½	10.16
New Zealand 7¼ 93 ECU	200	100⅞	101⅜	-0¼	-0⅜	7.44
Oesters.Ktbk. 13⅜ 94 A$	75	101½	102⅛	-0⅛	-0½	13.16
Prudential Fin. 9¼ 07 £	150	89⅜	90⅜	+0⅜	-1¼	10.62
Royal Bk.Scot. 10⅜ 98 £	125	98⅜	99⅛	-0⅜	-1⅜	10.85
S.O.R. 7⅜ 95 ECU	90	99	99⅜	0	-0¼	7.91
Wstd.Lb.Fin. 12½ 93 A$	50	†100⅜	100⅞	+0⅛	-0⅜	12.30
World Bank 5⅜ 92 FL	100	101⅛	102⅜	0	+0¼	5.15
World Bank 13¼ 92 A$	100	†102¼	103¼	-0¼	-1	12.37

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 3 93	†.0312	100.15	100.25	13/12	7.91
Alliance & Leic. Bld 94 £	.08	99.32	99.37	21/07	8.33
Belgium 91	0	100.22	100.32	22/08	7
Britannia 5 93 £	0⅛	99.79	99.84	8/07	8¼
Chase Manhattan Corp 91	0⅛	99.23	99.40	22/08	6.94
Citicorp 98	†0¼	96.85	97.10	31/08	7.69
EEC 3 92 DM	†0	100.49	100.59	22/08	3.56
Halifax BS 94 £	.1	99.55	99.60	9/08	8.47
Invt. In Industry 94 £	0	99.48	99.58	24/08	7.81
Leeds Perm. B/S. 94 £	0⅛	99.91	99.96	13/07	8.37
Midland Bank 01 £	.1	94.12	95.12	11/08	8.54
Milk Mkt. Brd. 5 93 £	0⅛	99.80	99.84	30/06	8.81
New Zealand 5 97 £	.07	99.82	99.92	18/08	7.81
New Zealand 5 01	0	99.61	99.71	4/08	6.98
United Kingdom 5 92	†0	99.99	100.09	7/07	6.94
Woodside Fin. 5¼ 97	†0	99.56	99.66	28/07	7.31
Woolwich 5 95 £	0⅛	99.27	99.31	19/08	7.87

Average price change... On day -0.01 on week -0.02

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02	†8/87	62.	102½	103	0	22.79
Alco Health 6¼ 01	†7/86	26.25	111½	112½	+1	-0.34
American Brands 7½ 02	†9/87	56.7	100	101	0	22.55
American Can Co. 5½ 02	4/87	66.75	64¼	65⅜	+0⅜	66.55
Ashikaga Bank 2⅜ 02	4/87	967.	132¼	133½	-1⅜	-3.16
Asics 5 92 DM	†12/83	472.7	211½	212½	+7	5.48
CBS Inc. 5 02	†4/87	200.	90½	91½	-0¼	15.19
Fuji Hvy Inds 3 00	8/85	676.	212⅜	214	-0½	2.16
Fujitsu 3 99	5/84	1106.	248	249	+4¼	3.07
Gunma Bank 2⅛ 02	4/87	808.	167	168⅛	-4⅜	6.82
Kinki-Sogo Bk. 2⅞ 03 US	4/88	1069.	127	128⅜	-2⅜	-2.35
Land Secs 6⅜ 02 £	6/87	6.72	100⅜	101⅜	+0⅝	16.56
MCA INC 5½ 02 US	9/87	69.62	79⅛	80⅛	-0¼	33.20
Minolta Camera 2¼ 94 DM	†2/86	1004.	103	104	0	15.07
Mitsubishi Bk. 1¼ 02 US	9/87	3157.	111⅜	113	-2⅜	2.61
Mitsui trust 2⅛ 01	10/86	1903.	137⅛	138½	-6	-1.63
Next PLC 5¼ 03 £	11/87	4.3	103½	104½	+0¼	72.00
Nishi Nipp.Bk. 2⅞ 03 US	4/88	804.	126⅛	127⅛	-3⅛	7.70
Omron Tateisi 2⅜ 02	4/87	1310.	216	218	-1⅜	2.07
Ranks Hovis 4⅜ 03 £	†1/88	3.5	117	118	-0⅛	7.38
Redland 7¼ 02 £	1/87	5.4	92¼	93¼	+0¼	15.67
Texas Inst 2⅜ 02 US	†9/87	82.87	78	79	-0⅛	32.77
W.R. Grace 6¼ 02 US	9/87	42.12	85⅛	86⅛	+0¼	35.04

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month, §above mean rate) for US dollars. C.cpn = The current coupon

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Tim Coone on the daily shifting of funds which passes for financial sophistication

Pride in Argentine market belies reality

PESSIMISM IS an Argentine national trait – humorists even call it the national sport.

But in the same way that a sociologist might discover significant social trends in the seemingly mindless self-destruction of football violence, so the behaviour of the Argentine capital market can be seen as a reflection of the society itself.

The Argentines like to pride themselves on having a sophisticated capital market. However, nothing could be further from the truth.

The market is thin, volatile and fails totally on one vital criterion; it does not serve as an efficient channel of savings into productive investment. The dollar, in fact, is king.

A few figures help to illustrate this. A widely used estimate is that there are about $5bn in foreign currency notes circulating in Argentina, three times more than its own currency (M1 is roughly 20bo australes or $2bo). Of course these are not normally used in daily transactions at the local shop – some of this huge sum represents the "stuffed mattress" component of national savings.

Total deposits in the banking system add up to another 50bo australes, or $5bn. Capitalisation of the local stock market is a meagre $1bn. Government securities represent another $6bn, of which two-thirds are dollar-denominated bonds while the rest are inflation- or dollar-linked paper.

To complete the analysis of where Argentines store their wealth, one should not overlook a tiny fact – it is estimated that at least $20bn is deposited in bank accounts or invested abroad. What better example of a pessimistic view of one's own future?

The vaunted sophistication of the Argentine capital market boils down to little more than a shifting of funds between secure government bonds, short-term high-yielding bank deposits and foreign currency, a process known affectionately as the "bicicleta." The stock market moves a mere $1m of business per day on average.

It is easy to see that even minor crises of confidence – common these days – can have dramatic effects on the exchange rate

Government security transactions in the primary and secondary markets can be anywhere between $3m and $30m per day depending on the monetary priorities of the Central Bank.

Foreign currency transactions in the unregulated (non-trade) sector of the market are thought to average $50m per day, while the average fixed-term bank deposit is of between 14 and 21 days duration – implying a turnover of between 3bn and 4bn australes per working day.

It is easy to see, therefore, that even minor crises of confidence (a common occurrence these days) can have dramatic effects on the exchange rate.

In addition there is an officially tolerated parallel credit market – the "inter-empresario" in which big and medium companies with stocks of cash lend to others, mainly for working capital, against dollar, or Bonex, bonds.

These in turn are frequently "hired" from Bonex holders. The market is estimated to be worth $2.6bn, precariously balanced on the strength of the borrowed Bonex bonds.

Seen from this perspective, it is hardly surprising that the Argentine economy has stagnated in recent years and is highly prone to attacks of the jitters. The Argentinians are not investing at home and those that do, do so at high cost and considerable risk.

Gross domestic capital formation, according to a recent independent study based on Central Bank figures, is oo more than 12 per cent of GDP per annum – insufficient to keep level with the depreciation of the country's capital stock. To reach a level of more than 20 per cent, a figure such as in Japan or the fast-growing Asian countries, would require investment of about $15bo a year.

Furthermore, almost 70 per cent of the $5bn in bank deposits is sterilised through compulsory deposits with the central bank and used for rediscounts and to finance central government spending.

So it is apparent the Argentine capital market as it exists is incapable of carrying out the vital function of channelling savings into investment at anywhere near the level required to sustain economic growth.

The perennial cap-in-hand trips by government officials to the IMF and foreign banks for further loans and waivers are thus vital to keep the system liquid in the absence of adequate domestic savings.

A foreign exchange crisis would potentially paralyse the already thin domestic credit market and knock the bottom out of the "inter-empresario" sector, throwing the burden even further on to the state to maintain economic activity.

It is not surprising, therefore, that the Government has been reluctant to declare a debt moratorium – the crisis of confidence it would produce in the volatile market would most likely create a run on the currency, a high level of capital flight and a deep recession in the economy without creditors even having to bother to retaliate.

Two glimmers of hope have been created by the new debt-for-equity swap scheme and the approval last month of the creation of private pension funds.

But with swap quotas limited to $400m a year, the net effect will be limited. Claims that the pension funds will mobilise $5bn of savings a year within five years are considered gross overestimates by foreign bankers.

At the same time, inflation is rising and foreign debt is rapidly becoming a key electoral issue. Add to that a good measure of indulgence of the national pastime, and the market behaves in its standard Pavlovian fashion by moving in the one direction it knows best – abroad.

KIO backs Banesto link up

By Tom Burns in Madrid

THE controversy surrounding the merger of Spain's two largest banks, Banco Central and Banco Espanol de Credito (Banesto), evaporated yesterday following a clarifying statement from Cartera Central giving grudging assent to the deal.

Cartera, an investment company linked to the Kuwait Investment Office, is a major shareholder in Central.

Cartera Central, which brings together KIO and two wealthy construction entrepreneurs, Mr Alberto Alcocer and Mr Alberto Cortina, denied published reports that its representatives on the Banco Central board had last week voted against the merger.

The carefully-worded statement also made no reference to threats, delivered by Cartera last Friday, that it was willing to test the legality of the merger in the courts.

Cartera did, however, reiterate its concern for the valuation of the two banks and to the manner in which an ad hoc holding company, designated by the Central and the Banesto chairmen, will exert total control over the merger process at the expense of the views of the board members of the two banks.

It concluded its statement appealing for a "correction of the grave economic and legal deficiencies" of the merger process.

The retreat by Cartera from its earlier confrontational tactics was, in part, a recognition of a *fait accompli*.

It came in the wake of the release of another extensive document, issued by Central and Banesto, which laid down the guidelines of the merger and formally announced the constitution of the holding company to create the BECC within a three-year period.

The legal wrangle that Cartera had threatened was as irritating to Mr Conde and to Central's elderly chairman, Mr Alfonso Escamez, as it was embarrassing to the Government's economic team.

There is a view that the process, once initiated, should be conducted with as little messiness as possible.

Amer Group sales surge to FM2.5bn

By Olli Virtanen in Helsinki

AMER GROUP, the Finnish marketing and manufacturing company, has reported a 57 per cent increase in net sales to FM2.5bn ($610m) during the six months ended February 1988, compared with the same period a year earlier.

Growth is largely due to foreign acquisitions. Profit after tax and before financial items rose by 28 per cent to FM156m and earnings per share rose by 20 per cent to FM10.40.

The dividend is being maintained at FM2 a share.

The six-month accounting period is the result of Amer's transition to a financial year with a February year-end.

The six-month figures, said Mr Heikki Salonen, the chairman, were good and in line with plans for the period. Growth in profit, he said, was slower than increases in net sales because the share of manufacturing operations had shrunk at the expense of portfolio investments.

Cash reserves amounted to FM534m at the end of the period.

French SE to act on concealed acquisitions

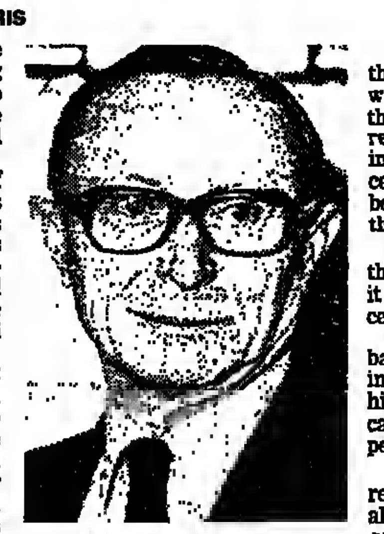
BY GEORGE GRAHAM IN PARIS

FRANCE'S STOCK Exchange regulatory authority is working on plans to require investors to launch a bid once they acquire more than 30 per cent of a listed company.

Mr Yves Le Portz, chairman of the Commission des Operations de Bourse (COB), which oversees stock market activity, said it was desirable to put a stop to the surreptitious acquisition of control by market purchases, and the obligation to launch a bid would achieve this aim.

He said the COB had not yet decided, however, whether an investor should be required to launch a full public offer once he reached 30 per cent or whether a price support procedure similar to that now used in France when a controlling stake changes hands would be sufficient.

The principle was stretched to the limit last summer when Chargeurs, the group headed by Mr Jerome Seydoux, came within a whisker of winning control of Prouvost, the wool company, without ever declaring his intentions.



Yves Le Portz: to stop surreptitious acquisitions

The COB has already increased the number of thresholds at which investors must declare their stakes, and now also requires them to state their intentions once they reach 20 per cent. But most Paris financiers believe further modifications to the rules are needed.

Mr Le Portz also indicated that the COB was considering making it obligatory to bid for 100 per cent of the capital of a company.

The recent protracted takeover battle for Télémécanique, the industrial automation group, highlighted the anomalies which can arise when a partial bid is permitted.

Presenting the COB's annual report yesterday, Mr Le Portz also called for new capital adequacy requirements to be imposed on stockbrokers in the wake of the scandal over the loss of a third of the exchange's guarantee fund.

He said new prudential rules should be published by the exchange in a matter of weeks.

After the revelation of its large trading losses, estimated at between FFr500m and FFr600m ($101.3m), the exchange has called on its members for a FFr500m capital increase and a FFr500m levy on each firm.

Several banks which have taken controlling stakes in stockbrokers have contested this FFr1bn operation, however, on the grounds that they already stand guarantee to these firms' dealings.

● Midland Bank SA, the French offshoot of the UK clearing bank, plans to raise about FFr500m on the Paris bourse through a three tranche issue of domestic bonds. Ten- and seven-year fixed-rate issues will raise FFr200m apiece while the balance is to be sought through variable rate bonds.

The funding package is being handled by a consortium led by Credit Agricole.

UK COMPANY NEWS

CURRENCY FLUCTUATIONS LIMIT PROFITS, BUT OUTLOOK REMAINS 'BULLISH'

C&W increases only 5% to £356m

BY HUGO DIXON

Cable & Wireless, the international telecommunications group, yesterday reported a 5 per cent increase in pre-tax profits to £356m for the year to end-March.

Profits had failed to grow more strongly, C&W said, because currency fluctuations had reduced the sterling value of overseas earnings. However, Sir Eric Sharp, chairman, said he was "very bullish" for the future.

C&W's turnover grew 2 per cent to £932m. Profits after tax grew more strongly £293m (£267m), largely the result of a reduced tax charge from the group's Hong Kong operations.

Mercury Communications, the group's UK subsidiary, crossed the break-even point at the end of the financial year, making a half-year loss of only £1m. Mr Gordon Owen, Mercury's managing director, said he saw "no reason why we should ever return to non-profitability".

Mr Owen said he expected Mercury's turnover, which was only £50m during the year, to grow by a multiple of 11 by 1992. Mercury should then be supplying about a third of group profits.

About 55 per cent of Mercury's customers are based in the City of London and only 15 per cent are outside the south-east. While 99 per cent of its customers are businesses, only 45 per cent have more than 20 lines.

The company's first batch of 27 call boxes, accepting only credit cards, will be installed at a major London railway station late next month.

On the international front, Mr Owen said he expected the Office of Telecommunications, the industry's regulatory body, to agree that British Telecom should cut its inter-connection charges to Mercury for international calls. Mercury was also likely to participate in a fibre-optic cable being planned between the UK and Germany.

Investment in Mercury was £200m last year and is expected to be the same this year. Investment in the whole C&W group is expected to grow to £550m this year from £423m.

C&W's pre-tax profits from the Asia/Pacific region, mainly Hong Kong Telecommunications, were £246m (£235m). Profits from the Middle East region fell to £16m (£27m) reflecting the fact that C&W no longer operates in Qatar. Profits in the "western hemisphere", mainly the Caribbean, grew to £48m (£31m) as profits from C&W's operations in Barbados started to come in. The UK made a profit of £1m, compared with a loss of £4m.

The directors are recommending a final dividend of 4.35p, making a total for the year of 6.65p (5.55p).

See Lex

H&C buys Magnet timber side for £83m

By David Waller

Magnet, Yorkshire-based kitchen and bedroom furniture group, is to sell its Southerns-Evans timber business to Harrisons & Crosfield, chemicals to *plantations conglomerate*. The disposal will raise a net £83.3m, significantly more than stockbrokers thought the business would fetch when Magnet put it up for sale two months ago.

For Magnet, the move forms part of a strategy of turning itself into a retailer rather than a supplier to the building trade. The disposal unpicks the merger of Magnet Joinery and Southerns-Evans which took place in 1975, after which the company was known as Magnet & Southerns.

For H&C, the acquisition almost doubles its existing business in timber and building supplies, taking it to third place in the UK market for such products after Hillsdown *Holdings and Meyer International*, with a nationwida chain of 137 depots.

Southerns-Evans has 39 outlets, mainly situated in the north of England. After a slowdown between 1984 and 1986, profits before central expenses and tax have grown from £7.1m in 1986 to £11.53m last year (excluding the contribution from six outlets to be retained by Magnet) on the back of buoyant conditions in the UK housebuilding market. Turnover was approximately £100m last year.

Mr George Paul, H&C chief executive, suggested that central overheads — which amounted to £2.4m last year — could be halved under H&C's management. Nevertheless, the exit-multiple of between 13 and 14 times last year's earnings was considered pricey by many analysts. Net assets of the company were £49m at the end of March.

The acquisition is in line with H&C's plans to distance itself from its roots as an overseas trader by making acquisitions in the three core areas of *chemicals, malt and building* materials. It will be financed by an issue in the Eurosterling market of subordinated convertible bonds.

Magnet's shares added 3p to close at 240p, while shares in H &C rose 9p to 651p.

Charter up to £55.4m on back of raised JM stake

BY CLARE PEARSON

A STAKE in Johnson Matthey increased over the year to 38 per cent and interest received from a £190m cash pile lifted pre-tax profits of Charter Consolidated by 31 per cent to £55.4m for the year to end-March.

The results of the mining, manufacturing and investment group's operating divisions, many of which are being extensively restructured, presented a patchy picture.

Mr Neil Clarke, chief executive, emphasised that a strong financial position made Charter well placed for future development. But he declined to be drawn on when a sizeable acquisition might be made, saying the money would be used "wisely rather than quickly".

The increase in net interest income to £8.71m (£1.02m) largely arose from the sale last summer of Charter's stake in Malaysia Mining Corporation. This gave rise to a net extraordinary profit of £12.6m.

Earnings per share rose to 35.8p (29.6p). The final dividend is increased to 10.25p, giving 14.5p (13p) for the year.

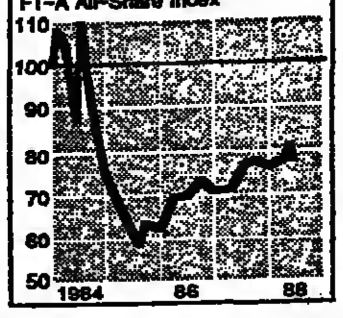
The overall operating profit was £49.85m (£43.58m). To this, engineering interests contributed £12.48m (£16.58m). Mr Clarke said that the division suffered the lowest overseas demand for mining equipment since the 1970s and this caused the Anderson Strathclyde subsidiary to fall to £6.9m (£9.85m).

Mining's contribution rose to £1.8m, from £327,000.

Precious metals produced sharply higher operating profits of £22.72m (£16.07m). A strong performance from the materials technology division, and a sharply lower interest charge, lifted pre-tax profits of Johnson Matthey to £60.6m (£50.5m). Charter increased its stake from 28 per cent in April 1987.

The impact of the stock market crash on Charter's securities trading was limited by steps taken earlier to reduce exposure to world equities. Profits were down to £3.16m (£6.88m).

Charter Consolidated
Share Price relative to the FT-A All-Share Index



● **comment**

After the crash, Charter's shares suddenly looked nice and safe from the point of view that it had lots of cash and low debt — as such they staged a recovery and then remained lodged at a comfortable discount to the market. Yesterday's results provided no reason to suppose they would tread another path. The operating areas, which look distinctly curate's egg-ish at the moment, will be in the throes of restructuring for years yet; and there is no clue about whether Charter will use its substantial liquid resources to escape from the mature markets in which it is currently grounded. Mr Clarke's comments on that subject were cryptic to say the least. The only other point of interest is that Charter might benefit from any re-rating of Johnson Matthey. Analysts expect £63m pre-tax this year, making the prospective p/e about 8.

G Davis sells park homes side

By Philip Coggan

Godfrey Davis Holdings, the motor dealer and laundry operator, has sold its residential parks business to the Berkeley Leisure Group, a private company, based near Yeovil.

The park homes business owns and manages 25 sites in southern England on which abont 3,500 homes are sited. Godfrey Davis, which merged with Sunlight Services last year, said it was now concentrating on providing services to the industrial and commercial sectors.

The total consideration for the business is £27.8m, consisting of £15.9m for the equity, £11.4m of loan repayments and a dividend of £0.5m. In the nine months to December 31 1987, the park homes business made pre-tax profits of £1.37m on turnover of £8.62m.

The Berkeley Group, which has no connection with the quoted residential househuilding company of the same name, will become the UK's largest residential park operator as a result of this deal.

Fisons

Fisons has purchased Union Scientific, Hong Kong-based scientific instrument distributor, for £0.4m.

Investa option on Marler stake

BY NIKKI TAIT IN LONDON AND KAREN FOSSLI IN OSLO

THE TANGLED situation at Marler Estates, the property group which owns Queen's Park Rangers football club and the Fulham and Chelsea football group, took a new twist yesterday as a Norwegian investment company, A S Investa, acquired an option over a near-28 per cent stake held by Mr David Thompson.

Mr Thompson is best known as the co-founder of Hillsdown Holdings, the food to furniture group. He acquired his interest in Marler just under one year ago, buying the stake formerly held by Mr Terry Ramsden's Glen International.

An announcement yesterday said that Investa had acquired rights over 20.72m shares or 27.33 per cent. The rights incorporate an option until 28 days from the acquisition date or, if later, two business days after Bank of Norway consent but not later than eight weeks from the acquisition date.

Yesterday, Marler was unable to elaborate on the statement, beyond confirming tbst tbe shares involved belonged to Mr Thompson. It said it only learnt abont tbe transaction in tbe course of the afternoon, and had not been in contact with Investa.

Investa itself declined to comment last night. The gronp is based in Bergen and is one of Norway's biggest investment companies. Much of its business is concentrated in Scandanavia, with significant interests in property and shipping. The company made pre-tax profits of NKr 690m last year.

Earlier in the day, British property company Priest Marians also revealed that it had acquired a further 1.05m shares in Marler, taking its total stake to 6.25m (about 8.3 per cent). Priest Marians has held a stake for about a year but has been buying more shares recently.

A third significant bolding belongs to Mr David McErlain, chairman of Anglo United, the fuel distribution group, with 14.5 per cent.

Shares in Marler gained 1p to 90p yesterday.

● Priest Marians chairman and chief executive, Mr Simon Fussel yesterday announced he had acquired a furtber 200,000 shares in the company at prices between 390p and 410p. This takes his total stake, plus that of parties deemed to be in concert, to 4.5m shares or 29.67 per cent.

Dares Estates £7m acquisition

BY RAY BASHFORD

Dares Estates, the commercial and residential property development group, is purchasing Hughes Group, the South Wales property and investment company *for £7m* in unsecured *loan* stock.

Dares directors said the acquisition is part of a general expansion plan with the potential to make a "significant contribution" to group development.

Since its formation in 1976, Hughes has specialised in the design and construction of retail warehouses and distribution centres and lists Marks and Spencer, Booker McConnell and Cadbury Schweppes among its clients.

Hughes has net assets in excess of £5m and in the year to September 31 1987 returned a pre-tax profit of £1.25m before adjustment for a non-recurring loss.

Terms of the purchase are the issue to Hughes of £5.25m in unsecured loan stock and £1.75m in convertible unsecured loan stock.

Each has an interest rate of 1.5 per cent below Midland base rate with a minimum of 6.5 per cent.

Dares has also reorganised its investment portfolio.

This has resulted in sales which have realised £18.5m and a surplus of £2.4m over cost.

Greenwich Resources admits Sudan mine errors

BY VANESSA HOULDER

Greenwich Resources, the minerals exploration and production group, yesterday admitted that errors had been made in ths development of one of its principal assets,the Gebeit gold mine in Sudan.

At an investors' meeting, Mr Stanley Eskell, chairman, took personal responsihility for choosing an exploration technique that had proved insufficiently methodical to follow the vein. "I have wasted four or five months of your time and your money," he said. "It is not the fault of the mine, the miners or my staff. It is my fault."

The mine would need a further three to six months of development work at an extra cost of between £800,000 and £900,000, he said. The company had returned to its bank for extra finance.

However, he added that, given the information he had at the time, be would make the same decision again. The problems, which have led to the temporary loss of the vein, stemmed from finding that the geological structure of the ore was more complex than first thought.

The company, however, is still confident that the mine will prove profitable. It is now expecting a grade of 10 grams per tonne, whereas the mine will be profitable with a grade of 5g/t.

Mr Eskell also said that the company's plans, following a recent review of corporate strategy, inclnded the completion of a *diamond drilling programme* and a pre-feasibility stndy in Egypt by the end of the year. Furthermore, it would consolidate its acquisition and exploration commitments in Venezuela and proceed with its planned activities in Australia and the Pacific Rim.

Hunting lifts profits to £7.4m

Hunting Group, holding company with interests in shipbroking and property refurbishment and development, reported an increase in pre-tax profits from £6.95m to £7.4m for 1987.

At the operating level, the group suffered losses of £314,000, against profits of £1.04m in 1986. The losses were, however, mitigated by the share of profit of Hunting's related companies, whicb contributed £7.91m (£5.88m). Tax took £3.03m (£2.16m) and earnings dropped to 18.01p (21.42p) per share. The directors have proposed to maintain the final dividend at 4p, for an unchanged 6p total.

An extraordinary credit for the company and its subsidiaries totalled £3.56m (nil).

UK COMPANY NEWS

Harris Queensway sets deadline on takeover talks

BY MAGGIE URRY

A TWO-WEEK deadline has been set on the bid approach to Harris Queensway, troubled furniture and carpets retailer.

Harris Queensway said yesterday that it would terminate discussions on a leveraged bid with a cousortium headad by Mr James Gulliver, who is soon to retire as chairman of Argyll, the supermarket group, unless a satisfactory conclusion is reached by the deadline.

Mr Nick Christodoulou, of James Gulliver Associates, Mr Gulliver's company, said he believed the two week deadline was reasonable although the discussions had "some way to go on several fronts."

It is thought that the structure of any deal would have to be complex and take account of the 23.4 per cent of tha Harris Queensway shares held by Great Universal Stores. Also the consortium was believed to be taking a particularly close look at Harris Queensway's business because of its problems.

Yesterday's announcement was seen in the stock market as a tactic to prevent questions about the bid from shareholders and others at Harris Queensway's annual meeting today.

The company's statement said no further comments would be made at the meeting and neither the company nor its advisers at County Bank would comment yesterday.

Meanwhile, Mr Gulliver appears to have recruited Mr Eddie Dayan from Dixons, although Mr Christodoulou would not confirm the appointment. Dixons said yesterday that Mr Dayan, a joint deputy managing director of the electrical retailing group, was being released immediately to join Mr Gulliver's consortium and that his position would not be filled again.

First news of the bid approach came ou May 5 wheu Harris Queensway also announced a plunge in pre-tax profits for the year ended January from £43.4m to £16.8m excluding property profits.

On May 23, Harris Queensway disclosed that a consortium was considering a leveraged bid and discussions were expected to take about four weeks.

Harris Queensway shares fell 6p to 156p yesterday as analysts speculated that the bid talks had stalled over the price or even that they were breaking down altogether.

Pittard Garner shares lose 27p

BY NIKKI TAIT

SHARES IN Pittard Garner, the leather group which evolved from the Pittard and Garner Booth companies following a three-way bid battle last year, fell 27p to 150p yesterday as the company revealed that it faced serious stock losses and trading difficulties. It expected to make a loss in the first half-year, which ends on June 30.

Pittard said that part of the problem stemmed from a sharp slump in sheepskin prices over the past couple of weeks, following a seasonal peak in the company's buying programme. As a result, Pittard expects to write-down stocks within the clothing leather and chamois division at the halfway stage.

On the basis of current prices, Pittard expected the provision to amount to some £2m, bnt stressed that the amount of the write-down could not be assessed until sheepskin prices over the next few months were known. Yesterday, the company said that end-June prices were about 25 per cent lower than those seen in February.

Aside from stock write-downs, Pittard experienced difficulties in the trading division, where it has found customers – particularly in Italy – unwilling to honour sheepskin contracts because of falling prices. "Vigorous action is being taken against the defaulting customers," added Pittard.

Pittard also reported that currency difficulties, coupled with soma post-crash destocking hy US customers, had hit first half results from the gloving leather operation, although it added that the division now had a healthy order book. Pittard continued to suffer on the shoe leather side from the downturn in the UK shoe market itself.

However, the company said it was confident about tha long-term future and, in the absence of any further significant downturn in market conditions, expected to maintain the dividend for 1988.

Pittard shares more than doubled to over 400p at one stage last year, but then fell back steadily after October and the disclosure of disappointing figures for 1987.

Last night, Hillsdown Holdings, which made a rival offer for Garnar Booth and ended up with a 15.9 per cent stake in the merged group, said only that it had noted tha situation with some interest.

Telfos aims to rectify Runciman stake error

By Fiona Thompson

Telfos Holdings, the diversified engineering company which has launched a £23.9m hostile bid for Walter Runciman, yesterday admitted that it had overlooked a Stock Exchange requirement in building up its stake in the shipping, insurance and security products group.

Telfos said that during May it had acquired 2.16m shares in Runciman for £6.32m, giving it a 24.58 per cent stake. As this shareholding cost more than 25 per cent of the book value of Telfos's net assets, under Stock Exchange rules Telfos should have obtained the approval of its shareholders for the acquisition.

Telfos yesterday wrote to its shareholders notifying them of an extraordinary general meeting called for July 12 to retrospectively ratify the purchase. It also posted its offer document to Runciman shareholders.

Telfos argues that Runciman shareholders are getting a poor return on the substantial assets of the group. Net assets per share, it says, stood at the same level in December 1987 as five years previously.

Hi-Tec high demand

The offer-for-sale of shares in Hi-Tec, sports shoe supplier, was 2.4 times subscribed.

Citicorp Scrimgeour Vickers was offering 8.73m shares, 25 per cent of the equity, at 160p each.

The basis of allocations is as follows; applications for 200 shares will be allotted in full; 400-1,000 shares – 50 per cent; 1,500 shares or more – 40 per cent, to a maximum of 390,000.

Mountview up 46%

Mountview Estates, property dealing group, lifted taxable profits by 46 per cent from £7.16m to £10.43m in the year to March 31. Turnover was 31 per cent higher at £14.07m.

Interest charges were reduced to £28,732 (£52,312). After tax of £3.67m, up from £2.51m last time, earnings per 5p share advanced to 138.8p (93.8p).

The proposed final dividend is lifted to 7.5p, making a total of 8.5p (6p) for the year.

Pathfinders Group

Pathfinders Group, the employment agency for media-related industries which was formed when the qnoted Setaley acquired Pathfinders Personnel Servives, has exceeded by £6,000 the pre-tax profits forecast of £420,000 made when it joined the USM last November. The figure of £426,000 includes the results of Setaley for the 15 months to end-March and those of PPS for the 12 months to the same date. It was achieved on turnover of £1.73m.

After tax of £153,000, earnings per 5p share came out at 1.14p, compared with the forecast of 1.1437p. The directors have proposed a final dividend of 0.292p.

P E Kemp falls

P E Kemp Holdings, the shares of which are traded on the Third Market, saw pre-tax profits fall from £112,000 to £106,000 for the six mouthe to end-April. Turnover was £1.84m (£1.19m).

Earnings per 5p share came out at 1.47p (2.06p) and the interim dividend is 0.5p. The directors anticipated a final of not less than 1.5p.

Accounting change helps Salvesen advance

BY RAY BASHFORD

A £4.3m decline in depreciation helped offset the effects of the worst UK vegetable season on record and allowed Christian Salvesen, Edinburgh-based frozen food distributor, to return pre-tax profits growth of 11 per cent from £42m to £46.6m in the year to March 31.

Tha directors said the decline in the depreciation allowance was due to a modification of the company's accounting procedure to reflect more accurately the commercial life of cold storage assets.

Turnover increased 46 per cent from £204.8m to £298.2m while earnings per share rose 11 per cent from 9.72p to 10.79p. A recommended final dividend of 2.6p makes 4.1p (3.625p) for the year – a rise of 13 per cent.

The pre-tax result was broadly in line with forecasts by City analysts who had been expecting the sharp fall in the UK pea harvest to clip £4m off profits.

They had also discounted the impact of difficulties in the Californian operations which Mr Barry Sealey, group managing director, said had incurred a £1m loss during the year under review because of a poor harvest and management problems.

Salvesen's pre-tax profits also suffered from a £700,000 loss on foreign exchange fluctuations.

Reflecting the poor UK harvest, trading profit from UK operations declined from £30.6m to £29.1 on turnover up from £126.5m to £152.8m, while North American activities returned a trading profit of £5.9m against £6.3m in the previous year.

Earnings outside the UK represented abont one-third of total profits which, according to the directors, was in line with the development plan that began to take shape when the group disposad of its house huilding operations in 1986.

Coutinental Europeau operations have been expanded considerahly during the year, particularly in West Germany and Belgium where three refrigeration transport businesses were acquired. Directors were confident that returns from Continental Enrope wonld show an advance during the current year on trading profits of £8.6m (£4.3m) for the year to March.

These European acquisitions formed part of the company's record £89m investment programme which also included new brick works at Walsall and a new distribution for Marks and Spencer.

In spite of this expansion in investment, the company's gearing is only 6 per cent.

The directors said that recent expausious in Contiueutal Europe and capital investments in the UK would boost earnings during the current year and they predicted that the rate of growth would be faster than in the two previous years.

See Lex

Work in south helps to nearly double Booth

Booth Industries, Lancashire-based structural steel fabricator, almost doubled pre-tax profits to £325,148 in tha year to end-March 1988, on turnover up 41 per cent at £18.02m.

The directors said the group had benefited from an "improved trading enviroment" with business emanating from retail and commercial developments, particularly in the south-east and the City of London.

A proposed final dividend of 1p makes 1.375p (0.75p) for the year, after adjustment for last December's 300 per cent scrip issue.

BMP purchase

Boase Massimi Pollitt, the UK advertising agency which recently acquired the Davidson Pearce ageucy, yesterday announced the acquisition of a US sales promotion group Sims Freeman O'Brien for an initial consideration of $6.0m (£3.38m) in cash and shares.

Battle for Bell leaves Dewey Warren inactive

BY NICK BUNKER

SHAREHOLDERS learned yesterday that Dewey Warren Holdings, the insurance broker, has in effect put itself on hold pending the outcome of the battle under way in Australia for control of Bell Group, which owns 31 per cent of the company.

Mr Alan Newman, Dewey Warren's chairman, told about 50 people who gathered at its annual meeting in London that he expected "a state of relative inactivity" until the fate of Western Australia-based Bell Group was decided.

"I would imagine that if the control of Bell is to change then there would be a lot of questions asked about the future direction of Dewey Warren," he added.

Mr Newman – himself a senior Bell Group executive – appeared to hint however that he would step down as Dewey Warren chairman if Bell Group came under tha control of Mr Alan Bond's Bond Corporation.

The meeting passed quietly, with only three questions from the floor, in spite of the fact that Dewey Warreu was badly mauled by the equity market crasb because it was functioning as an investment vehicle for Mr Robert Holmes à Court, at that time Bell Group's major shareholder.

It subsequently reported a pre-tax loss for 1987 of £29m, including a £19.1m write-down in the value of its 5.6 per ceut holding in Morgan Grenfell, the merchant bank.

Mr Newman said Dewey Warren had rejected suggestions by some shareholders during the year that the company should be liquidated.

Wilding Office

Wilding Office Equipment pre-tax profits in the six months to end March rose from £1.02m to £1.42m on turnover ahead 30 per ceut from £15.82m to £20.57m. The interim dividend is increased to 1.6p (1.3p).

Fuller, Smith & Turner lifted to £6.74m

BY LISA WOOD

Fuller, Smith & Turner, the USM-quoted Loudon brewer, lifted pre-tax profits to £6.74m in the year to April 1 from £5.81m from thet previously.

After tax of £2.41m (£2m) earnings per £1 share worked through at 29.27p against 25.04p. The final dividend was 3.8p per "A" share (3.3p) making a total dividend of 6p (5.1p). The directors are proposing a two-for-three scrip issue.

Turnover at £49m was significantly up on the previous year's £44.9m with an operating profit of £6.5m compared with £5.6m.

Beer volumes – unlike those of many small brewers – were up. K2, the brewer's own lager performed satisfactorily, as did its 50 or so off-licences.

The brewer owns three hotels which contributed to this year's results. The Master SpearPoint at Ashford was acquired last year and the Master Brewer at Hillingdon, this year added 40 new beds.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Anglia TV ....int	2.35	-	1.8*	-	5.8*
Booth Industries ....fin	1	-	0.5*	1.38*	0.75*
Brookmount § ....fin	3.5	-	2.7	5.25†	4
Cable & Wireless....fin	4.35	-	3.5	6.65	5.55
Caledonia Inv ....fin	4.5	Aug 12	3.3	7	5.5
Charter Consolid....fin	10.25	Aug 4	9	14.5	13
Fuller ....fin	3.8	-	3.3	6	5.1
Health Care § ....fin	0.7†	August	0.9	1	0.9
Hunting Group ......fin	4	-	4	6	6
Kemp (PE) ♦ ....int	0.5	-	-	-	-
Kewill Systems §....fin	2.2	-	1.5	2.2	1.5
Latham (James) ....fin	6	-	5.25*	9.5	8.25*
Lee (Arthur) ....int	1.25†	Aug 5	1	-	3.2
Mountview Ests ....fin	7.5	Aug 22	5	8.5	6
Pathfinders § ....fin	0.29	Aug 5	-	0.29	-
Spice § ....int	1.2	-	1.2	-	3.6
Salveson (C) ....fin	2.6	Aug 10	2.25	4.1	3.63
Staveley Ind ....fin	4	Aug 9	3.5	5.7	5
Wilding Office ....int	1.6	Aug 6	1.3	-	3.25

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Burns Anderson, Dundee & London Inv TstEconomic Forestry, Grainger Trust, LPA Inds, Macarthy, Raeburn Inv Tst, River & Mercantile Cap River Plate & General Inv Tst, Soundtracs. Finals- BTP, Drummond, Elsburg Gold Mining, ERF, Gresham House, Greycoat, Melville Street, Penny and Giles Int'l, Randfontein Estates Gold Mining,Rothmans Int'l, Western Areas Gold Mining.

FUTURE DATES

Finals-

Campbell & Armstrong	June 27
Chemoxy Int'l	July 6
Courts (Furnishers)	June 30
Great Nordic	July 4
Geevor Tin Mines	June 29
Lister Group	June 28
MS Int'l	June 30
Mercury Asset Management	June 27
Pepe	July 5
Turnbull Scott	June 27
Wooltons Betterware	June 27

UK COMPANY NEWS

IMI to pay $33m for Conax Buffalo

By Richard Tomkins, Midlands Correspondent

IMI, the Birmingham-based diversified industrial group, yesterday marked another stage in its international expansion with the announcement that it was making a significant US acquisition for $33m (£18.6m) in cash.

Subject to formal contract, it is to buy Conax Buffalo Corporation of Buffalo, New York. The company is a leading manufacturer of specialised temperature sensors and sealing devices.

IMI has been transforming itself over the past 10 years from a UK-orientated metal basher into an international manufacturing group specialising in fluid control equipment, building products, drinks dispensing equipment and special engineering products.

Earlier acquisitions that have underlined this strategy have included Cornelius, the US drinks dispensing equipment maker, and Martonair, manufacturer of pneumatic systems and components.

Conax makes components for extreme working environments such as those found in the aerospace and nuclear industries. In 1987 it generated pre-tax profits of $4.4m from sales of $17.6m, its net assets were $4.2m.

The company will become part of the control and instrumentation operations of IMI's fluid control division, where the parent company said it would find synergy with its Control Components subsidiary in the US and with Watson Smith and Webber Electro Components in the UK.

IMI whittled its debt/equity ratio down from 19 per cent to 8 per cent last year and an acquisition of this size had been long expected. The company is understood to have suffered more than one setback in its search for appropriate US acquisitions, but said yesterday that other purchases in Europe and the US could be expected.

Measurement side growth helps Staveley reach £18m

BY CLARE PEARSON

Staveley Industries increased pre-tax profits by 27 per cent to £18.1m in the 53 weeks to April 2, helped by a larger contribution from its measurement division.

However, the encouraging contribution from Weigh-Tronix, the 53 per cent-owned US subsidiary which makes measuring equipment, also produced a higher than expected minority interest of £1.9m (£0.4m). Earnings per share were almost static at 16.10p (15.97p).

Towards the year-end, Staveley, which has been reducing its dependence on salt sales, added to its measurement division with the £12m acquisition of four divisions of Qualcorp, a US company which runs testing laboratories.

Mr Brian Kent, chairman, said: "All being well, measurement should equal or beat the profits contribution of salt for the first time this year."

Turnover rose to £205.5m (£199.3m) during the year. The dollar's fall was mitigated by various financial measures to produce a neutral currency effect.

Despite the mild weather, minerals contributed £8.2m (£7.9m) to trading profits, reflecting a good export performance. A plant for manufacturing salt pellets for water softening came on stream this March.

The rationalisation benefits of the Weigh-Tronix merger with Staveley's existing measurement activities helped push the a division ahead to £7m (£3.6m).

Mechanical and electrical services produced pre-tax profits of £3.4m (£2.7m). Some UK operations benefited from buoyant construction activity in the south. But over the country generally, the tight conditions being imposed by main contractors on subcontractors such as Staveley have become a matter of concern, Mr Kent said. He intends to use the annual report as a forum to complain about it.

The manufacturing group's contribution fell to £1.9m, but the previous year's £2.2m included a contribution from Lapointe Broach, a machine tool business since sold.

The increased final dividend of 4p (3.5p) makes 5.7p (5p) for the year.

● comment

Qualcorp, the new US acquisition, will now take centre stage in the ongoing saga of Staveley's diversification policy, which essentially involves using its stable position in the UK salt market to provide the cash for a growing interest in electronic-based measurement equipment. With Qualcorp, Staveley becomes involved in providing a service in materials testing as well as producing the instruments required for it. The plan is to fill in the gaps in the US coverage of Qualcorp's twelve testing laboratories – a lab in Phoenix has already been added in the last month or so. Meanwhile, salt activities underpin this expansion, and the outlook for them is cheerful at the moment: ICI and Staveley (which share the market between them) have just been allowed to make the first price rise for some years, while Staveley is hoping to steal a march on its competitor with more efficiently-produced water softeners. It should all add up to pre-tax profits of £21.5m; a rise in US tax payments should make the minority effect about the same, giving a very reasonable prospective p/e of about 9.

Advertising upturn boosts Anglia 44% to £7.67m

BY FIONA THOMPSON

EXCEPTIONALLY STRONG advertising sales enabled Anglia Television, the IBA contractor for the east of England, to report profits 44 per cent ahead for the half year to end-April.

The pre-tax figure advanced from £5.31m to £7.67m and earnings per share rose to 11.42p (8.51p), adjusted to take account of the April three-for-two scrip issue.

Turnover, the bulk of which came from advertising revenue, increased from £39.76m to £47.31m.

Anglia's net advertising revenue rose by 30 per cent compared with a revenue increase for the network as a whole of 12.2 per cent.

Mr Peter Gibbings, chairman, said that the growth in advertising sales underlined the excellent economic growth being experienced in the south-east, but warned that "the same rapid growth in revenue is unlikely to continue in the second half of the year".

The Channel Four subscription took £6.39m (£5.58m), and the Exchequer levy increased from £2.57m to £3.55m. Tax took £2.79m (£1.92m). An interim dividend of 2.35p was declared.

Overseas programme sales increased marginally, said Mr David McCall, chief executive, but they ware traditionally weighted to the second half.

Tha big overseas successes included Survival, sold in 107 countries, and tales of the Unexpected, sold in 90.

Anglia increased programme costs by 25 per cent, said Mr McCall.

● comment

The City was expecting Anglia to do well, but not quite as well as this, and the shares closed 10p up at 183p. Anglia is the fastest growing TV region in Britain, more people are going to live there, house prices are shooting up, and the advertisers are flocking in their wake. Also, yesterday's figures were given a boost by interest receivable of about £800,000, a 30 per cent increase on last year, due to a cash pile from last year's rights issue. That said, none of the other TV companies reporting recently have shown 20 per cent advertising revenue growth. Although the company was keen to play down the possibility of a repeat performance in the second half, analysts have upgraded their forecasts for the full year to about £15m, putting the shares on a prospective p/e of just over 8, reasonable.

Hazlewood in Dutch expansion

By Philip Coggan

Hazlewood Foods, fast-growing food manufacturing group, returned to its old ways yesterday with a £10.6m bolt-on acquisition of a Dutch frozen fish company.

In May, when it was revealed that Hazlewood had built up a 3 per cent stake in the Northern Foods conglomerate, it seemed as if the group was about to depart from its long-standing formula of making frequent small, agreed acquisitions.

Yesterday's announcement seemed to indicate that Hazlewood was concentrating on its old strategy and its shares climbed 8p to 225p.

The company being acquired is Gebr Sterk Holding, which sells its products to a range of European retailers, including Marks and Spencer. Last year, it made profits of Fl 4.7m (£1.3m) on turnover of Fl 45.3m.

The acquisition of Stark is Hazlewood's seventh purchase in the Netherlands.

"Most of the sales of the Dutch companies we have bought consist of exports to other EC countries" said Mr Dennis Jones, finance director.

BWD at £516,000 for first half

In spite of a difficult period in the securities industry, BWD Securities has continued to invast in its business. The stockbroking and portfolio management group came to the USM in April.

Pre-tax profit for the half year to May 31 fell 60 per cent from £1.3m to £516,000. Earnings per 10p share were 4.4p against 12.4p last time.

Commissions and fee income halved to £1.4m from £2.9m and interest receivable also dropped to £81,000 (£131,000).

Property Trust

Shares in Property Trust, the USM-quoted property company, have been suspended pending news of a substantial property acquisition.

Bond increases stake in M & G to nearly 12%

BY NIKKI TAIT

SHARES in M & G Group, Britain's largest unit trust company, nudged 3p higher to 362p yesterday as Bond Corporation, the Australian company headed by Mr Alan Bond, disclosed that it has picked up a further 1.53m shares (almost 2 per cent of the equity). This takes the Bond holding to 11.95 per cent.

Bond first disclosed a stake in the British company late last December and has since added to this sporadically. Yesterday, M & G – which is fiercely committed to independence – said it knew of no further davelopments or contact with Mr Bond, apart from the share purchases themselves.

It also confirmed that the smaller stakes in the company held by Mr Robert Maxwell, Mirror Group publisher, Sir Ron Brierley, New Zealand businessman, and Lord Stevens' fund management group MIM-Britannia were unchanged.

Shares in M & G topped 400p earlier this year as speculation over Mr Bond's intentions mounted. However, they hava recently fallen back in the wake of Bond Corporation's wave of activity elsewhere and thoughts that the Australian company might be more interested in selling its stake than adding to it. A formidable block to any hostile action is posed by the Esmee Fairhairn Cbaritable Trnot, which owns 31.65 per cent of the sbares and supports M & G's continuing independence.

UK COMPANY NEWS

Caledonia makes 38% advance

BY VANESSA HOULDER

Caledonia Investments, the investment vehicle of the Cayzer family which last year loosened its long standing bond with British & Commonwealth Holdings, yesterday reported a 38 per cent increase in profit before tax and an exceptional credit of £9.8m, for the year to March 31 1988.

Mr Peter Buckley, chief executive, stated that the company was in a very strong financial position. Investment income was expected to rise significantly this year and a substantial increase in the dividend was anticipated.

Last October Caledonia sold the bulk of its 31.3 per cent stake in British & Commonwealth Holdings, the financial services company which in the past accounted for four-fifths of its assets. It has since spent about half the £100m cash received in paying off an overdraft and the remainder on a string of investments including property, an investment trust, industrial projects and special situations. A further payment of £327.5m preference shares was made which are redeemable in four equal annual instalments of £82m from December 1988 to 1991.

Investment income rose from £8.4m to £12.5m, including a £10.7m (£7.1m) contribution from its B&C investment. Interest payable less receivable was £852,000 (£275,000). Operating profit of its trading activities was £1.7m (£1.4m) on turnover of £14.8m (£12.6m).

The £9.8m exceptional item accounts for the preference dividend for the six months from July 1987 and has been treated as an exceptional item since the investment income already includes a dividend for the full twelve months on Caledonia's 31.1 per cent stake in B&C.

A final dividend of 4.5p (3.3p) per share has been recommended making a total of 7p (5.5p) for the year – an increase of 27 per cent.

● comment

After its neatly-timed decision to break its bond with B&C last year, Caledonia is now striking out on its own. Its ambitioo is to recreate an investment holding company akin to the old-style B&C before Mr John Gunn focused it on financial services. Thus the £82m it will receive for each of the next four years will be channelled into a wide range of ad hoc, essentially opportunistic deals, in the hope of long-term growth. Given the record of Caledonia's managemeot, which helped huild up B&C, the prospects look good – particularly as the income stream from the B&C preference shares relieve any pressure for short term returns. Further encouragement can he gleaned from Caledonia's exceptionally skilful timing in exiting from B&C – a coup reflected in the unchanged net assets per share value of 499p. With the share price up 3p to 350p, the resulting 30 per cent discount to assets may seem temptingly high for the long-term investor.

All-round growth lifts Arthur Lee to £2.74m

Improved trading in all divisions enabled Arthur Lee & Sons, steel and plastics group, to report record pre-tax profits of £2.74m for the six months to end-March.

The outcome, up almost 45 per cent on the £1.9m achieved in the comparable six months last time, came on turnover some 23 per cent higher at £49.44m (£40.06m). Mr Peter Lee, chairman, said the balance sheet remained strong despite an increase in group borrowing during the period. This reflected the need for increased working capital.

After tax of £923,000 (£565,000), earnings per 12½p share improved to 5.61p (4.27p). The interim dividend is raised to 1.25p (1p).

Aukett at £0.5m

Aukett Associates, architectural and design consultancy, reported pre-tax profits of £503,000 for the six months to March 31 1988.

The results, the first set of figures since the group's placing on the main market in February, compared with profits of £415,000 in the corresponding period last year. Work done amounted to £3.91m (£3.15m) and earnings per 5p share rose to 2.83p (2.37p).

Health Care advances to over £1m

Health Care Services, USM-quoted hospital and residential homes management group, yesterday revealed pre-tax profits up from £877,000 to £1.02m for the 12 months to end-March.

Turnover rose 30 per cent to £12.65m. Tax accounted for £372,000 (£343,000), and resulted in earnings per share of 5p (4.4p). The recommended final dividend is 0.7p making 1p for the year (0.9p).

Mr Graeme Hart, chairman, said that indications were that the Government's current review of the NHS would result in greater co-operation between the NHS and the private sector and would provide further opportunities for the group.

Buoyant sales boost Kewill to over £1m

Continuing buoyant sales helped **Kewill Systems**, USM-quoted computer software house, to lift taxable profits to £1.11m in the year to end-March.

The result, a 62 per cent improvement on the previous year, followed a 66 per cent upturn at the midway stage. Turnover expanded by 39 per cent to £6.57m (£4.74m).

The directors said major technical development was now in progress through a number of collaborative projects, which have obtained the endorsement and support of the Department of Trade.

They anticipate further growth in the current year.

Tax took £353,000 (£243,000), leaving earnings of 13.07p (7.89p) per 5p share. A single dividend of 2.2p is recommended, up from 1.5p last time.

Spice profit halved to £0.3m as forewarned

THE RECENT profits warning from **Spice** has been borne oot with pre-tax profits for the half year to end March 1988 halved from £537,000 to £268,000. The USM-quoted autoparts wholesaler and distributor warned in April that the mild winter had depressed demand and said it expected profits for the six months to be not less than £200,000.

Group sales were £12.6m (£11.07m). The directors said sales had shown a gradual improvement since March, but second half profits were unlikely to exceed those of last year. Interest receivable of £6,000 compared with a £65,000 payment previously. After tax of £67,000 (£134,000) earnings per 5p share fell to 2.5p (5.2p). As promised, the interim dividend has been held at 1.2p.

The new national distribution centre, due to become operational in October, is expected to widen business opportunities and increase competitiveness.

Brookmount profits doubled to £4.62m

Brookmount, USM-quoted property group, has built on the progress made during its first half to announce full-year profits of £4.62m. This compares with £2.25m achieved in the previous year. Turnover in the twelve months to March 31 1988, excluding turnover of related companies, advanced from £5.42m to £16.7m.

Amortisation of goodwill took £620,000 (nil). This relates to the acquisition of Wright Oliphant and the directors have decided to amortise the goodwill over 13.5 years. After increased tax of £2.02m (£656,000), earnings came out at 30.7p (22p). A final dividend of 3.5p is proposed, for a total of 5.25p (4p).

LIT offer to cut costs

BY RAY BASHFORD

LIT Holdings, the futures and options brokerage group formerly known as London Investment Trust, has written to shareholders with an offer aimed at lowering administration costs.

The company said that it has made arrangements with its brokers, James Capel, to allow for shareholders with less than 500 shares to sell their investments without incurring commission costs.

Directors said the offer has been made following contact with shareholders who have told the company that they wish to sell their holdings but who have indicated that the costs of the sale would be excessive when compared with the net proceeds of the sale.

The company has 182m shares on issue of which only 1m are in the hands of the 2,000 shareholders who own 500 shares or less. There is a total of 9,500 shareholders.

The removal of this relatively large number small shareholders would lower the administrative costs of circularising shareholders with reports and company statements, directors said.

James Capel has been instructed to sell all shares made available through the offer at the best price prevailing on the first trading day after July 31.

Shareholders who dispose of their shares under the offer will receive no further dividends.

Jas Latham expands by 24% to £2.6m

Increased activity in the building sector prompted continued progress at James Latham. In the year to March 31, the timber merchant revealed a 24 per cent expansion in both turnover and taxable profits.

Pre-tax profits, up from £2.07m to £2.58m, were from turnover of £53.71m (£43.27m).

Tax took £512,000 against a credit of £233,000 last time, leaving earnings per £1 share of 39.04p (45.36p).

A final dividend of 6p is proposed, making 9.5p for the year, up from an adjusted 8.25p.

Cluff boosts gold output

By Kenneth Gooding, Mining Correspondent

Cluff Resources, the London-based natural resources group, has taken another step towards becoming Zimbabwe's major gold producer by bringing its new Freda mine in the Bindura districtin the north east of the country into full prodnction at a rate higher than predicted.

Cluff, quoted on the London Unlisted Securities Market, is in the process of transforming itself from a loss-making minor oil company into a medium-sized gold producer. The group's gold output is expected to rise from about 9,000 troy ounces last year to 40,000 ounces in 1988, mostly from Zimbabwe. Next year Cluff hopes to prodoce more than 80,000 ounces of gold.

Mr Algy Cluff, the group's chairman, said that the joint venture had gone so well that Cluff and Antofagasta were considering further collaboration in Chile where the latter group has considerable properties which might be amenable to Cluff's production techniques.

APPOINTMENTS

Sealink UK finance director

Mr Paul Kilduff has been appointed financial director at SEALINK UK. He joins from Lonrho where he was responsible for the acquisition of a 50 per cent stake in Krupp Handel. He was also group financial director of the Metropole Group (a part of Lonrho), finance director of the Special Beer Company (part of Grand Metropolitan) and as group financial executive of Micro Focus, led the computer software company to public ownership.

★

Mr John Langenegger and Mr Tony Warren have become partners of RENSBURG, the Leeds-based stockbrokers.

At TOKAI INTERNATIONAL **Mr Rodger Charles Livesey** has been appointed joint general manager. He was formerly deputy chief executive of Security Pacific Hoare Govett.

★

HARVARD SECURITIES has appointed **Mr Stephen Bullock, Mr Philip Fernandes and Mr William Holden** directors.

★

Mr R.S. George, group marine manager at COMMERCIAL UNION ASSURANCE, will retire on June 30. He is succeeded by **Mr P.L. Evans** on July 1. Mr Evans will remain underwriter of the Indemnity Marine Assurance Company.

Mr Andrew Graham-Watson has been appointed a director of SPECIAL RISK ADVISERS – a trading division of Duke Insurance Holdings.

★

H. YOUNG HOLDINGS has appointed **Mr Thomas S. Redfern** as its group legal adviser and company secretary from July 1. This appointment is made due to the impending retirement of Mr Thomas H.S. Ross on July 31.

★

Mr Leonard E.H. Williams has been appointed deputy chairman of BUPA. He is chairman of Nationwide Anglia Building Society and a director of Y.J. Lovell (Holdings).

The SUMMIT GROUP has appointed **Mr Philip Ralph**, formerly director of corporate finance of the General Electric Company, as executive vice chairman. GEC owns 40 per cent of Summit.

★

Mr Huw Harries has been appointed advertisement director of the BIRMINGHAM POST & MAIL from July 1. He is general advertisement manager at the Western Mail and Echo in Cardiff.

★

Mr Tom Jones, resident director of FRASER WILLIAMS' Bristol office, has been appointed a senior director of the Fraser Williams Group.

★

At PHILIPS **Mr James A. Duffy** has been made a director of customer services at its business systems division. He was previously director of customer service for Philips Information Systems in Canada.

★

METAL BOX food packaging division is restructuring its divisional board responsibilities in order to improve its response to customer requirements. Three business directors have been appointed to manage the sales and manufacturing operations of the food division. **Mr David Ford** has become business director, metal food containers, **Mr Brian Curtis** has been appointed business director, plastic and carton systems and **Mr Bill Teasdale** has become business director, Whitecap International. **Mr Simon Doyle**, previously sales director for the food division, has been appointed to a sales and marketing position in Genesis Packaging Systems, the US joint venture hetween Metal Box and Aluminum Company of America (Alcoa). Mr Doyle's previous sales responsibilities will be taken over by three national sales managers. They are: **Mr Gleo Andrews** from metal food containers, **Mr Geoff Laws** for plastic containers and **Mr Peter Lancaster-Smith** for cartoo systems.

COMMODITIES AND AGRICULTURE

Green currency deal may break EC deadlock

BY TIM DICKSON IN BRUSSELS

MR FRANS Andriessen, Europe's Agriculture Commissioner, will today table a new compromise on "green" currencies in an effort to lift the Greek Government's veto on this year's EC farm price package.

The concessions to Athens – agreed at yesterday's full meeting of the European Commission in Brussels – are thought likely to add a little under Ecu 50m (£33m) to the Community's budget and might mean that additional savings have to be made in the dairy sector.

This factor could cause complications among Farm Ministers at today's hastily convened meeting of the EC Agriculture Council in Luxembourg, which will have to ratify the final package.

The Greek veto was applied in dramatic circumstances last Friday when the country's Agriculture Minister Mr Yannis Pottakis insisted that the "final" compromise of the Commission and the West German presidency – acceptable to all the other 11 member states – did not go far enough to meet his demands. He held out for a boost in farm incomes through a 24 per cent green currency devaluation on arable products and 18.5 per cent for animal products.

Green currencies are the artificial exchange rates at which EC support prices are translated into national money – devaluing them not only increases prices in local currencies but helps to dismantle the system of border taxes and subsidies known as monetary compensatory amounts (MCAs).

The Commission's compromise is thought to go some of the way to meeting the Greek request, providing around 19-20 per cent for crop products and 16-17 per cent for animal products. The offer takes more account of the rate of inflation in Greece over the last two years.

Earlier this month the EC announced that it would be making significant savings by cutting the subsidies paid to boost the use of skimmed milk powder and liquid skimmed milk in animal feed. This has given Mr Andriessen some room for manoeuvre but he may nevertheless find that further action will be necessary to help pay for the latest concessions.

Argentina expects grain export boost

BY GARY MEAD IN BUENOS AIRES

ACCORDING TO Mr Guillermo Moresco, president of the Argentine Cereals Exchange, 1988 will see a substantial increase in the US dollar value of Argentina's cereal produce. This is largely due to the increase in world prices, itself a result of the current drought in US farming areas.

The view of Argentina's National Grain Board is that the country will export 23.7m tonnes of cereals in 1988, a 27 per cent increase over 1987.

Last year's harvest was relatively poor because of severe flooding which affected about 1m hectares. The yields for 1988 are officially described as better than average but "not a record."

At the same time it is predicted that the 1988 value of Argentina's cereal and by-products exports will be significantly more than for the last year. It is expected that the 1988 average price per tonne will reach between $195 and $200. The comparable figure for 1987 was $136. In terms of the value of Argentina's cereal exports this will give a figure for 1988 of approximately $4.5bn, compared with the 1987 figure of $2bn.

Argentina's cereal and grain-related products account for 55 per cent of its total exports. Shifts in world prices considerably alter the prospects for the economy as a whole. It is calculated by the Argentine Cereals Exchange that between 20 and 25 per cent of the 1988 wheat harvest and about 50 per cent of the maize and soya harvest is still in the hands of the farmers, who are thus able to take advantage of the current increase in world prices.

Chinese cotton threatened

A SHORTAGE of pesticide is threatening China's 1988 cotton crop, the Economic Daily said, reports Reuter from Peking.

It said high state purchasing prices encouraged farmers to plant more cotton this year, boosting acreage to 5.336m hectares, up from 4.936m in last year.

The crop is growing well in Jiangsu, Zhejiang and other southern provinces.

The 1988 target is 4.5m tonnes up from 4.245m in 1987.

European zinc prices raised again

By David Blackwell

SEVERAL EUROPEAN zinc producers yesterday increased their prices for the metal by $150 a tonne to a record $1,350 a tonne as prices on the London Metal Exchange continued to climb.

The move by Preussag of West Germany, Pennaroya of France and Vieille Montagne of Belgium leapfrogged an increase of $125 a tonne to $1,325 earlier in the day by Electrolytic Zinc of Australasia. EZ's increase was itself higher than expected in the market, and the latest $150 rises are believed to be the biggest increases ever announced.

On the LME cash zinc closed at up £19 at £854 a tonne – the highest level since March 1985 – while metal for three-month delivery rose £18.50 to £774 a tonne, equivalent to $1,374.

Demand for zinc this year, particularly from the galvanised steel industry, has continued to outpace supply. Stocks in LME warehouses stood at 35,875 tonnes at the beginning of this week, a fall of 8,925 tonnes since the start of the year.

Prices have nearly doubled this year so far. At the beginning of January the LME cash price was £453.50 a tonne and the EEP stood at $950 a tonne.

Producers, who until February had set the trend for zinc prices, have been following the LME upwards. "They have waited to see if the LME price held," said Mr Steven Briggs, an analyst with the London metals research unit of Shearson Lehman Hutton. "The EPP has been a long way below the LME cash price for some time."

He felt there was still potential for the EPP to rise to $1,450 a tonne – still below yesterday's LME cash price in dollar terms – or even higher. In addition to the relative tightness of supplies, he believed that zinc and the LME's other base metals were benefiting from the recent widespread surge in commodity prices.

The last rise in the EPP was on June 8, when Cominco, the Canadian natural resources group, took the initiative with an increase from $1,140 to $1,200 a tonne.

● The Curragh Resources lead-zinc mine in the central Yukon, the largest of its kind in Canada, is producing limited quantities of concentrate despite being strike-bound since June 10.

Mr Kurt Forgaard, president, said 100 non-union staff have been operating the Faro mine since last Thursday at slightly less than half the usual production rate.

More than 300 members of the United Steelworkers of America have been on strike since narrowly rejecting a contract offer from the company, which is 46 per cent owned by Ariadne Australia's Giant Resources subsidiary.

Robin Allen reports on ambitious plans to expand smelting capacity

Outlook bright for Gulf aluminium industry

THE GULF aluminium industry, so long in the doldrums owing to world over-capacity and low prices – is now experiencing something of a boom. And the good times are expected to last for several years at least.

Output and sales from the two operational producers, combined with bullish assessments of future prices, add weight to reports that two more smelters may be built in the Gulf.

The two existing smelters are Aluminium Bahrain (Alba) and Dubai Aluminium (Dubal). The two new sites for smelters now being mooted are in Qatar, and Saudi Arabia's Jubail industrial city. Both countries have, or will have, ample supplies of cheap dry gas – in Qatar from its North Field and in Saudi Arabia from the offshore Khuff reserves. The Jubail smelter is still only being discussed privately, but the Qatar project is already at the level of official discussions.

On the other hand uncertainty, particularly over supplies of natural gas, continue to cloud prospects for the proposed $1bn aluminium smelter in the northern United Arab Emirate of Umm al-Qaiwain, which for the last year has been the site most frequently discussed.

Alba and Dubal both reported increased production last year. Alba's output exceeded rated capacity of 170,000 tonnes by 6 per cent with production of 180,344 tonnes. Alba – owned 57.9 per cent by the Bahrain Government; 20 per cent by Saudi Arabia, through its Public Investment Fund; 17 per cent by the Kaiser Aluminum of the US; and 5.1 per cent by West Germany's Breton Investments – does not release turnover or profit figures. However, that part of its output belonging to the two governments is marketed by Bahrain Saudi Aluminium Marketing Company (Balco) which last year sold over 152,000 tonnes of primary aluminium, generating sales revenues of $216.3m and profits of $60.3m.

This is a healthier picture than four years ago, when net profits were $39.5m on sales of $277.7m. The balance of Balco's profits not attributable to Alba came from sales of atomised aluminium powder, sold on behalf of Bahrain Atomizers International, and Balco's own trading operations.

Dubal, wholly-owned by the Dubai Government, reported total metal sales of 155,026 tonnes, mostly to Japan, which took 46 per cent, and the US, which took 19 per cent. By contrast the bulk – 58 per cent – of Balco's sales are in the Middle East, including the Gulf countries, with 23 per cent going to the Far East, including Japan.

Aluminium downstream industries in the Gulf Co-operation Council countries – Kuwait, Oman, Qatar, Saudi Arabia, the UAE, and Bahrain itself – continued to expand, taking some 83,000 tonnes a year, mainly billets and rolling slabs, close to 60 per cent of Balco's tonnage entitlement from Alba.

The opening of the King Fahd causeway in November 1986, connecting Bahrain with the Kingdom, enabled Balco to improve deliveries and save on shipment costs and metal stock management to regional customers. The company last year transported a total of 15,600 tonnes by road via the causeway to customers in Saudi Arabia, Kuwait, and Jordan.

Because of increased sales to GCC countries, Balco have had to reduce sales volumes to customers outside the Gulf, until more metal from future expansion of the Alba smelter comes on-stream late in 1989. Alba's expansion programme, costing some $200m, will lift annual production to some 220,000 tonnes.

Although Dubal too does not release sales or profit figures, prices for three-month delivery – upwards of $2,500 a tonne – suggest that its 1987 results were as buoyant as Alba's. And overall demand is excellent, according to Mr Mahmoud al-Soufi, Balco's general manager. International primary aluminium stocks have recently touched historical lows equivalent to only 5.3 weeks of working stock.

Gulf analysts reckon Alba and Dubal, both of which benefit from cheap gas, are among the world's lowest-cost producers. Others are Australia, Brazil, Canada, France and Venezuela.

GCC production will still only be up to 400,000 tonnes after Alba's expansion programme is complete. According to Dr. Abdullah al-Moajil of the Qatar-based Gulf Organisation for Industrial Consulting, Qatar's proposed smelter will have an initial capacity of 180,000 tonnes-a-year; Umm al-Qaiwain's, if it does indeed go ahead, could have an annual capacity of up to 240,000, while that in Jubail is unlikely to be smaller than any existing or planned smelter.

According to market analysts, world aluminium consumption is likely to reach 13.9m tonnes by 1990 with production at only 13.6m tonnes. The accuracy of these forecasts depends to a very large extent, however, on how many more of the older smelters in high-cost areas are shut down; the extent to which modernised plants in the US remain competitors for the Gulf producers; whether demand, particularly from the Japanese, continues to grow; and, not least, whether the dollar remains low enough to encourage US producers and deter their overseas rivals.

Producers in the Gulf are optimistic, however. Alba's general manager Mr Gudvin Tofte commented: "Any new smelter will come on-stream at the earliest in 1992 or 1993. The aluminium community could be suffering from a shortage by then. Future new projects will not match shutdowns and the anticipated increase in regional consumption." To which Mr al-Soufi adds: "Gulf producers have a very big geographical as well as cost advantage in that they can easily service all three major consuming areas – Europe, the Americas and the Far East."

Big sugar crop expected in Russian Federation

THE 1988 sugar beet harvest in the Russian Federation might well exceed last year's bumper yields, according to Mr Mikhail Sushkov, head of Rossakhsvyokla, the Russian sugar company, reports Reuter from Moscow.

He said the planting area this year in the Soviet Union's largest republic was 1.46m hectares, the same as in 1987.

The Russian Federation is the Soviet Union's second-largest beet-growing republic after the Ukraine. Mr Sushkov said he understood that the beet harvest in the Ukraine was also good and that yields there could exceed last year's levels.

The Ukraine and the Russian Federation together account for 90 per cent of the Soviet Union's sugar beet output.

Official figures show 90m tonnes of Soviet beets were harvested in 1987, the best crop since 1978.

In raw value terms, the 1987-88 Soviet crop totalled 9.8m tonnes, the largest since 1968-69, F.O. Licht, the West German sugar statistics agency said in its latest weekly report.

Mr Sushkov said harvesting work was due to start in the Russian Federation in the first 10 days of September, with the average yield estimated at between 25 and 30 tonnes a hectare.

More Australian coal miners join strike

COAL MINERS in northern New South Wales yesterday voted to join those in the rest of the state and in Queensland, who went on strike last week over attempts by Queensland coal companies to change working conditions, reports AP-Dow Jones from Sydney.

It is not clear how long the strike will run. Union leaders have threatened a 10-day strike, but some said yesterday that they expect all 25,000 workers to return to work from midnight on sunday.

A union leader said proposals by coal companies in New South Wales to change working conditions might lengthen the strike.

Dispute threatens $20m Indonesian tea deal

BY JOHN MURRAY BROWN IN JAKARTA

TEA TRADERS in Jakarta say a dispute over commission rates threatens the $20m counter-trade deal agreed last November between Indonesia and Pakistan, and is putting considerable strain on storage capacity in Indonesian factories.

Pakistan is objecting to a 5 per cent commission demanded by Indonesia which it claims breaches the original 2-year accord. Traders say because of the dispute Pakistan has issued few import licences.

When withholding tax is also included, Pakistani buyers can expect to pay 7 per cent more than on parallel barter deals recently signed with Sri Lanka and Bangladesh.

Under the protocol Pakistan was to take around 7.5m kg this year, with a repeat order in 1989. But traders say only 600,000 kg has so far been delivered, mostly of the better quality Java teas the so-called CTC (cut-tear-and-curl) types as used in tea-bags, and some lower grade dusts. Prices have ranged around $1.30 a kilogram.

Pakistan, the world's third largest tea importer after the US and the UK, agreed the deal with two private Indonesian barter traders Rexford Pratama and Comexindo to exchange tea for Pakistani engineering goods.

Rubber growing makes a comeback in Brazil

BY JOHN BARHAM IN SAO PAULO

BRAZILIAN RUBBER is slowly making a comeback. The glorious days when the Amazon forest was the planet's only source of rubber are gone for ever – thanks to the enterprising British botanist who smuggled seedlings of the jealously-guarded plants out of the rubber boom town of Manaus a century ago. But farmers in Sao Paulo state, 1,800 miles from Manaus, are now switching to rubber growing in increasing numbers as coffee, once the region's principal crop, loses its attraction.

Mr Ruy Novaes, reputed to own the largest rubber plantation in the state, sees a profitable future for the crop. "I'm only sorry I didn't think of growing rubber trees 15, 20 years ago," he says.

The 56,000 trees that are already producing at his estate, yield 17 tonnes of dry rubber a month, worth $32,000 at current prices. He plans to bring up to 300,000 trees into production over the coming years.

International tyre companies are also investing to increase their local rubber output. Michelin's Brazilian subsidiary plans to be self-sufficient in rubber by the turn of the century. It is believed to have close to 20,000 hectares planted already.

Although the trees grow more slowly in Sao Paulo's more temperate climate, they do not suffer from the diseases that ravaged Amazonian trees. And researchers have developed varieties better adapted to the soil and climate of the south.

Profits are high because once the sturdy rubber trees take root, they do not need fertilising or the intensive care that coffee bushes demand.

The main problem is that saplings can succumb to a bitter frost and it can take up to seven years for a tree to begin producing, which ties up capital and land.

Brazil's present rubber output does not even come close to meeting domestic demand. Government officials expect output this year to reach at least 32,000 tonnes compared with consumption of 122,000 tonnes. Two thirds of domestic output still comes from the Amazon.

Growing rubber in Brazil is only profitable because the Government has always maintained a generous official price designed to keep poor jungle tappers in business.

Surprisingly, Brazil has emerged recently as one of the world's most economic producers. A government committee has set prices at $1,865 a tonne which is roughly 20 per cent less than the world price, which shot up earlier this year in response to strong demand for tyres and, in the wake of the AIDS scare, for condoms and surgical gloves.

WORLD COMMODITIES PRICES

LONDON MARKETS

PRECIOUS METAL prices fell yesterday, depressed by the strengthening dollar and weaker oil prices. Japanese selling of platinum and silver overnight prompted a sympathetic decline in gold bullion, which closed at $449 an ounce, down $2.50. In contrast base metals once again performed strongly on the LME. Nickel rose sharply before profit-taking pared the gains. Traders said the market tone continued to reflect expectations of increased consumer demand over the third quarter and concern over possible disruptions to supplies from Canada during the summer months. Further strength on Comex, coupled with currency factors, helped to push copper higher, and prices closed near the day's highs. Aluminium prices continued their recent climb, reflecting covering against uncertainty over the availability of LME supplies, with several potentially tight delivery dates falling due between now and late September.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$13.52-3.57z	+0.11
Brent Blend	$15.15-5.20u	+0.12
W.T.I. (1 pm est)	$15.90-6.00u	+0.105
Oil products (NWE prompt delivery per tonne CIF)		**+ or -**
Premium Gasoline	$186-187	-0.5
Gas Oil (Soviet)	$131-133	-1
Heavy Fuel Oil	$66-68	-2
Naphtha	$148-150	-0.5
Petroleum Argus Estimates		
Other		**+ or -**
Gold (per troy oz)♣	$449.0	-2.5
Silver (per troy oz)♣	705c	-14
Platinum (per troy oz)	$567.25	-14.75
Palladium (per troy oz)	$128.0	-3.0
Aluminium (free market)	$3990	+00
Copper (US Producer)	113½-119c	-0.370
Lead (US Producer)	38.0c	
Nickel (free market)	700c	
Tin (European free market)	£4045	+47.5
Tin (Kuala Lumpur market)	18.18r	+0.04
Tin (New York)	333.0c	+2.0
Zinc (Euro Prod Price)	$1170	
Zinc (US Prime Western)	63.5c	
Cattle (live weight)†	113.94p	
Sheep (dead weight)†	172.44p	
Pigs (live weight)†	70.49p	
London daily sugar (raw)	$289.0x	+6.4
London daily sugar (white)	$292.5x	+2.9
Tate and Lyle export price	£272.0	+5.0
Barley (English feed)	£106.5z	-0.5
Maize (US No. 3 yellow)	Unq.	
Wheat (US Dark Northern)	£125.0x	+1.0
Rubber (spot)♥	77.00p	-1.25
Rubber (July)♥	82.50p	-1.75
Rubber (Aug)♥	83.00p	-1.75
Rubber (KL RSS No 1 July)	372.5m	-3.5
Coconut oil (Philippines)§	$645y	
Palm Oil (Malaysian)§	$537.5u	+2.5
Copra (Philippines)§	$440	
Soyabeans (US)		
Cotton "A" index	71.8c	
Woolto (64s Super)	650p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. u-July. x-Jul/Aug. a-Jul/Sep. z-Aug. y-Jun/Jul. q-Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low	
Jly	892	880	895	888
Sep	913	902	917	910
Dec	935	922	937	932
Mar	957	946	960	955
May	976	964	979	975
Jul	994	982	996	992

Turnover: 5970 (4587) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 21: 1176.81 (1176.11). 10 day average for Jun 22: 1195.37 (1193.03)

COFFEE £/tonne

	Close	Previous	High/Low	
Jly	1116	1115	1121	1115
Sep	1130	1130	1136	1129
Nov	1147	1142	1149	1141
Jan	1159	1153	1158	1152
Mar	1171	1166	1175	1166
May	1185	1100	1178	

Turnover: 1449 (2396) lots of 5 tonnes
ICO indicator prices (US cents per pound) for June 22 Comp. daily 1979 119.82 (120.03); 15 day average 120.32 (120.16).

SUGAR $ per tonne

Raw	Close	Previous	High/Low	
Aug	256.00	255.60	259.20	253.60
Oct	246.80	246.60	251.40	243.40
Dec	245.00	246.00	247.00	247.00
Mar	241.40	241.80	245.60	238.00
May	236.00	239.40	242.00	235.00
Aug	239.00	239.80		
Oct	239.00	239.00	241.00	235.00
White				
Aug	277.00	281.50	283.00	277.00
Oct	271.00	274.00	276.00	269.00
Dec	272.00	274.00	273.00	272.00
Mar	272.00	274.00	276.00	271.00
May	272.00	274.00	275.00	272.00
Aug	272.00	274.00	276.00	272.00
Oct	272.00	274.00	275.00	272.00

Turnover: Raw 5863 (4537) lots of 50 tonnes; White 1298 (811).
Paris- White (FFr per tonne): Aug 1601, Oct 1605, Dec 1608, Mar 1620, May 1620, Aug 1630

GAS OIL $/tonne

	Close	Previous	High/Low	
Jul	133.00	132.50	133.25	131.00
Aug	132.50	132.00	132.75	131.00
Sep	134.00	133.75	134.00	132.75
Oct	135.50	135.00	135.75	134.25
Nov	135.25	135.75	135.25	135.00
Dec	137.00	136.25	137.00	135.50

Turnover: 5612 (5088) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low	
Jly	107.75	109.80	108.50	107.50
Sep	108.00	110.15	109.15	108.00
Nov	110.60	112.65	111.90	110.40
Jan	113.50	115.50	114.50	113.40
Mar	116.45	117.45	116.45	115.30
May	117.50	119.50	118.50	117.50
Barley				
Sep	102.60	104.10	103.35	102.60
Nov	105.40	106.95	106.20	105.40
Jan	108.45	110.00	109.25	108.45
Mar	110.75	112.30	116.75	110.75
May	112.40	114.00	113.25	112.40

Turnover: Wheat 450 (718), Barley 100 (183) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	3880-900	3775-85		3970-80		
3 months	3220-40	3160-70		3240-60	3200-20	6,742 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 28,450 tonne
Cash	2170-80	2085-100		2185-90		
3 months	1788-90	1732-5	1800/1740	1785-90	1771-2	50,781 lots
Copper, Grade A (£ per tonne)						Ring turnover 38,200 tonne
Cash	1446-50	1385-8	1445/1430	1430-2		
3 months	1356-7	1307-8	1358/1333	1338-40	1356-7	67,578 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1360-80	1330-50		1350-70		
3 months	1305-15	1267-80		1290-300		59 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	700-3	715-7		703-4		
3 months	713-6	728-30		716-8		693 lots
Lead (£ per tonne)						Ring turnover 7,550 tonne
Cash	337-8	368-9	392	392-3		
3 months	380-1	378-80	390/350	392-3	392-3	12,363 lots
Nickel ($ per tonne)						Ring turnover 2,282 tonne
Cash	16500-700	18100-200	16200/16100	16100-200		
3 months	15800-1600	15000-50	16300/15300	15300-400	15800-900	5,861 lots
Zinc (£ per tonne)						Ring turnover 13,475 tonne
Cash	823-5	804-6	830/827	827-8		
3 months	773.75-4.25	755-6	776/769	775-6	773-4	22,257 lots

POTATOES £/tonne

	Close	Previous	High/Low	
Nov	98.0	96.5	97.0	96.0
Feb	105.0	104.0	104.0	
Apr	140.0	150.0	153.0	149.0
May	160.0	100.9	161.0	160.0

Turnover: 434 (619) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low	
Jun	203.00		203.00	
Aug	202.00	202.00	201.00	200.00
Oct	201.00	000.00	205.00	200.00
Dec	205.00	205.00	209.00	204.00
Feb	210.00	210.00	205.00	

Turnover: 2309 (179) lots of 100 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low	
Jly	1240.0	1229.0	1255.0	1234.0
Oct	1421.0	1390.0	1425.0	1392.0
Jan	1455.0	1425.0	1455.5	1435.0
Apr	1475.0	1450.0	1480.0	1465.0
Oct	1360.0		1360.0	1320.0
BFI	1244.5	1249.0		

Turnover: 608 (374)

WOOL

THE FINAL SALES of Australia's 1987-88 wool selling season are being held next week. The price tendency this week is still very gradually softer and the Australian Wool Corporation's market indicator has now slipped back to 1108 from an April peak of 1257. The floor price for next season will shortly be announced. Substantial funds are available to support the market flexibly before actual reserve levels are reached, if indeed they are. Present calculations of the supply/demand balance for wool next season imply poor bearish direct high prices lead to reduced world demand and this is not by any means a firm assumption in the trade. New business in the UK is subdued for holiday and seasonal reasons but there are some more optimistic assessments and machinery activity in general is good.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	448¼-449¼	253½-254
Opening	449¼-449¾	253-253½
Morning fix	449.60	253.123
Afternoon fix	448.50	252.876
Day's high	450-450½	
Day's low	447½-448	
Coins	**$ price**	**£ equivalent**
US Eagle	462-467	261-264
Mapleleaf	462-467	261-264
Britannia	462-467	261-264
Krugerrand	447½-450½	253-255
1/2 Krug	236-245	133½-138½
1/4 Krug	117-126	66¼-70⅞
Angel	460-465	260¼-262⅞
1/10 Angel	47-52	26⅝-29⅞
New Sov.	105½-105½	59½-60¼
Old Sov.	100½-107	56½-60½
Noble Plat	585.05-91.75	330.1-33.85

Silver fix	p/fine oz	US cts equiv
Spot	393.85	700.90
3 months	409.25	724.15
6 months	419.05	738.65
12 months	440.00	770.70

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls July	Calls Sept	Puts July	Puts Sept
Strike price $ tonne				
3100	358	393	64	250
3200	259	344	95	300
3300	229	300	134	354
Aluminium (99.5%)				
3100	308	347	77	279
3200	242	302	113	332
3300	188	262	156	390
Copper (Grade A)				
2250	317	282	11	110
2350	233	209	27	164
2450	161	164	54	217

US MARKETS

THE PRECIOUS METALS were lower throughout the day, easing initially on a combination of trade and local selling, reports Drexel Burnham Lambert. However, the markets failed to penetrate underlying support and closed with pared losses on late local and commission house short-covering. Copper rallied on early fund and trade buying, but failed to break through resistance, falling back on profittaking. Energy futures eased in response to mildly bearish A.P.I. statistics, but recovered on short-covering after holding support areas. Cocoa was featureless, steadying on late short-covering. Coffee was lower, while sugar finished a volatile session near the days highs. Early producer and commission house selling took values lower in the sugar, where trade support emerged to drive prices higher on short-covering. The grains opened on the defensive with profittaking in the soybean complex and maize, and hedge selling in the wheat. Commercial buying was noted in the beans, but one feature was the unwinding of some bull spreads as the markets assessed the latest forecasts.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	449.5	451.6	449.5	447.0
Jul	450.0	452.4	0	0
Aug	453.0	455.4	453.4	450.6
Oct	456.3	460.0	456.3	455.0
Dec	463.6	466.2	464.0	461.0
Feb	469.0	471.7	469.0	468.0
Apr	474.5	477.3	474.5	474.5
Jun	480.1	482.9	479.5	479.2
Aug	485.8	488.8	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jun	566.5	581.2	573.0	573.0
Jul	567.6	582.7	576.0	567.0
Oct	573.6	588.8	582.0	573.0
Jan	580.4	595.1	587.0	581.0
Apr	587.4	602.1	594.0	585.0
Jul	594.9	609.6	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jun	704.0	717.7	704.0	704.0
Jul	703.5	719.8	710.0	700.0
Sep	713.5	729.5	720.0	710.0
Dec	728.0	745.3	737.0	724.0
Jan	736.0	750.3	736.0	734.0
Mar	744.0	761.4	750.0	744.0
May	758.0	772.4	756.0	758.0
Jul	772.0	784.0	772.0	768.0
Sep	777.0	795.6	781.0	777.0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	112.30	111.45	112.40	112.30
Jul	110.30	108.35	110.50	107.80
Aug	106.60	105.00	0	0
Sep	103.30	101.65	103.70	101.20
Dec	95.50	194.85	96.00	94.10
Jan	92.65	192.00	0	0
Mar	87.55	186.50	87.60	86.80
May	84.30	84.00	85.00	83.75
Jul	83.00	83.00	83.00	82.50
Sep	82.00	82.00	82.00	81.50

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	16.42	16.36	16.45	16.20
Sep	16.57	16.50	16.59	16.33
Oct	16.70	16.62	16.73	16.43
Nov	16.82	16.70	16.82	16.64
Dec	16.83	10.76	16.67	10.62
Jan	16.89	16.81	16.89	10.77

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	4345	4328	4350	4280
Aug	4385	4365	4410	4335
Sep	4475	4445	4480	4420
Oct	4565	4528	4563	4510
Jan	4756	4726	4756	4720
Feb	4769	4731	4769	4740

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	1523	1512	1529	1515
Sep	1535	1520	1539	1523
Dec	1547	1541	1551	1537
Mar	1579	1573	1584	1567
May	1599	1594	1600	1591
Jul	1626	1620	1640	1622
Sep	1650	1646	1668	1668

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	135.40	136.15	136.75	135.40
Sep	137.48	138.42	138.70	137.40
Dec	138.42	139.70	139.60	138.10
Mar	138.45	139.90	139.30	136.40
May	138.60	139.95	139.25	139.25
Jul	137.85	141.70	0	0
Sep	137.85	141.70	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	11.01	11.08	11.17	10.85
Oct	10.95	10.92	11.03	10.71
Jan	10.75	10.85	10.76	10.75
Mar	10.69	10.70	10.73	10.50
May	10.55	10.57	10.59	10.42
Jul	10.50	10.54	10.57	10.40
Oct	10.52	10.60	10.93	10.40

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	68.40	68.70	68.45	67.60
Oct	67.80	68.25	68.15	67.15
Dec	66.81	67.58	67.20	66.40
Mar	67.40	68.20	67.95	67.15
May	67.82	68.65	68.20	67.60
Jul	67.90	00.65	0	0
Oct	65.62	65.65	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	175.00	175.80	175.20	174.20
Sep	172.55	173.25	173.25	172.50
Nov	166.50	167.10	167.00	166.30
Jan	162.25	162.50	162.80	161.90
Mar	161.65	161.85	162.60	161.25
May	161.35	161.65	160.50	160.25
Jul	160.75	160.55	0	0
Sep	160.75	160.55	0	0
Nov	160.75	160.55	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

June 21	June 20	mnth ago	yr ago
1858.7	1837.4	1783.5	1599.4

DOW JONES (Base: December 31 1974 = 100)

Spot	-	142.99	134.01	128.37
Futures	-	144.54	138.01	125.29

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	1043/0	1046/4	1049/0	1018/0
Aug	1041/0	1049/0	1043/0	1014/0
Sep	1025/0	1036/4	1027/0	998/0
Nov	1007/0	1013/4	1010/0	980/0
Jan	999/0	1001/4	999/0	973/0
Mar	990/0	991/0	990/0	980/0
May	968/0	955/0	969/0	945/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	30.30	29.01	30.35	29.15
Aug	30.00	30.10	30.65	29.35
Sep	30.66	30.35	30.75	29.70
Oct	30.80	30.50	30.80	29.80
Dec	30.75	30.58	30.81	29.80
Jan	30.55	30.35	30.35	30.00
Mar	30.30	30.22	20.30	29.85
May	28.55	29.45	28.60	28.15

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	322.0	322.5	324.0	315.0
Aug	317.0	315.7	316.5	310.0
Sep	314.0	317.0	310.0	308.0
Oct	312.0	315.6	313.0	308.0
Dec	310.0	312.5	310.0	302.0
Jan	305.0	308.1	306.0	298.0
Mar	299.0	301.7	300.0	292.0
May	292.0	297.0	294.0	290.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	344/4	334/4	344/4	336/0
Sep	351/4	342/4	352/0	340/4
Dec	355/6	350/4	357/0	344/0
Mar	356/4	350/4	357/4	345/0
May	364/2	345/4	355/0	341/0
Jul	348/0	341/4	350/0	336/0
Sep	307/0	303/0	309/0	300/0
Dec	279/0	272/4	282/0	267/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	390/0	389/4	390/0	378/0
Sep	398/0	396/4	398/0	386/4
Dec	406/0	404/0	407/0	394/0
Mar	408/0	403/0	408/0	397/0
May	388/0	383/0	388/0	382/0
Jul	367/0	360/0	367/0	360/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	63.32	63.90	64.25	63.27
Oct	63.82	64.65	64.86	63.65
Dec	67.47	68.30	68.35	67.45
Feb	70.37	71.12	71.05	70.30
Apr	72.97	73.92	73.65	72.75
Jun	70.60	70.22	70.75	69.60

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	45.90	46.25	46.60	45.75
Aug	45.30	45.67	45.90	45.05
Oct	43.12	43.30	43.70	42.95
Dec	45.60	46.77	47.45	46.27
Feb	50.25	50.92	51.26	50.22
Apr	50.00	50.10	50.50	49.50
Jun	50.45	49.80	51.10	49.75

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	42.00	43.15	43.30	41.80
Aug	42.16	43.22	43.40	42.00
Feb	63.20	65.20	65.00	63.20
Mar	62.47	64.47	64.45	62.47
May	62.56	64.40	64.50	62.56
Jul	01.00	63.80	64.50	61.80

Some markets in this table show latest prices due to technical difficulties.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Strong demand for dollar

THE DOLLAR rose sharply in currency markets yesterday, breaking through resistance points, and finishing at its best level since October last year. Investors were encouraged to switch into the US unit as it became clear that the G7 nations were not opposed to a stronger dollar.

This was underlined by the absence of any aggressive or co-ordinated central bank intervention yesterday. The West German Bundesbank continued to intervene, bnt the scale of its operations was both small and, in isolation, had little obvious effect.

Institutions gained heart from comments by Mr Gerhard Stoltenberg, West German finance minister, made after the Toronto summit, when he said that the dollar's recent rise gave no cause for concern. This view was later echoed by officials from the Bank of Japan.

Dealers suggested that the Bank of Japan was unlikely to intervene unless the dollar rose above Y130, and that the market is now looking to test central banks and try to establish the dollar's ceiling.

US durable goods orders for May fell by a surprise 2.2 p.c. compared with market forecasts of a 1.0 p.c. rise, and in sharp contrast to a revised 1.8 p.c. increase in April. However the decline was reduced to just 0.9 p.c. excluding defence orders and actually rose by 0.6 p.c. when taking out the effects of a sharp fall in aircraft orders. In addition the figure was still 7.5 p.c. above the level in May 1987.

The dollar rose to DM1.7790 from DM1.7575 against the D-Mark and Y128.65 from Y126.45 in yen terms. Elsewhere it finished at SFr1.4735, np from SFr1.4625 and FFr5.9850 compared with FFr5.9300. On Bank of England figures, the dollar's exchange rate index rose from 94.4 to 95.3. Early trading in New York saw the US unit hesitate as it reached a key resistance level of DM1.7800.

Sterling opened on a weaker note, slipping to DM3.1275 against the D-Mark, bnt it improved quite strongly after the rise in base rates, prompting the Bank of England to enter currency markets and buy D-Marks at around DM3.1425. Nevertheless the pound continued to improve and finished at DM3.1475, against DM3.1375 on Tuesday. However it fell sharply against the dollar to $1.7685 from $1.7855. Its performance elsewhere was mixed, with a rise against the yen to Y227.50 from Y225.75 but a lower close in Swiss franc terms at SFr2.6050 from SFr2.6125. Against the French franc it finished at FFr10.5850 compared with FFr10.5875. Its exchange rate index finished at 76.5, unchanged from Tuesday, but up from 76.3 at the start.

The D-Mark benefited against the yen from aggressive unwinding of long yen/short D-Mark positions, as investors took profits, following Tuesday's increase in West German interest rates.

The yen fell back to DM1.3790 per Y100 from DM1.3900, having touched a record high earlier in the week. Part of the decision to take profits and switch out of yen was based on the recent rise in Euro-dollar rates - up half a point in the last month - and the recent statement from the Bank of Japan which said that there would be no change in monetary policy (i.e. no move to higber rates). The D-mark's performance elsewhere was less impressiva however, losing ground to the Swiss and French francs, as well as the dollar.

In Paris the D-Mark was fixed at FFr3.3674, down from FFr3.3729 on Tuesday.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 22	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.5323	+2.53	+1.13	±1.5344
Danish Krone	7.85212	7.90526	+0.68	-0.72	±1.5404
German D-Mark	2.05853	2.07984	+1.04	-0.44	±1.0981
French Franc	6.90403	7.00493	+1.46	+0.06	±1.3674
Dutch Guilder	2.31943	2.34143	+0.95	-0.45	±1.5012
Irish Punt	0.768411	0.773685	+0.69	-0.71	±1.6684
Italian Lira	1483.58	1541.99	+3.94	+3.12	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

June 22	Latest	Previous Close
£ Spot	1.7675-1.7680	1.7890-1.7900
1 month	0.16-0.14pm	0.16-0.15pm
3 months	0.61-0.57pm	0.63-0.60pm
12 months	2.45-2.35pm	1.72-1.82pm

Forward premiums and discounts apply to the US dollar

POUND SPOT- FORWARD AGAINST THE POUND

June 22	Day's spread	Close	One month
US	1.7675-1.7760	1.7680-1.7690	0.16-0.13pm
Canada	2.1390-2.1470	2.1415-2.1425	0.01-0.10dis
Netherlands	3.52-3.55	3.53¼-3.54¼	1¼-1⅛pm
Belgium	65.35-66.05	65.65-65.75	[illegible]
Denmark	11.89-11.97¼	11.94-11.95	[illegible]
Ireland	1.1645-1.1725	1.1675-1.1685	0.14-0.20dis
W. Germany	3.12¾-3.15	3.14¼-3.15	1¼-1pf
Portugal	251.90-255.35	253.90-254.90	[illegible]

STERLING INDEX

CURRENCY RATES

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

June 22	£	$
Mexico	4042.45-4062.45	2280.00-2290.00
N. Zealand	2.4695-2.4745	1.3925-1.3940
Saudi Ar.	6.6390-6.6450	3.7490-3.7500
Singapore	3.6060-3.6120	2.0330-2.0350
S. Af (Cm)	4.0640-4.0690	2.2905-2.2920
S. Af (Fn)	5.3920-5.4755	3.0395-3.0865
Taiwan	51.10-51.35	28.60-28.70
U.A.E.	6.5035-6.5095	3.6725-3.6735

*Selling rate

EXCHANGE CROSS RATES

June 22	£	$	DM	Yen	F Fr.
S Fr.	0.384	0.679	1.208	87.33	4.065
H Fl.	0.282	0.500	0.889	64.27	2.992
Lira	0.429	0.759	1.350	97.60	4.543
C $	0.467	0.826	1.470	106.2	4.944
B Fr.	1.522	2.698	4.791	346.3	16.12

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

US Treasury bonds firmer

DEMAND FOR US Treasury bond futures rose sharply in yesterday's Liffe market, as overseas investors showed renewed interest in dollar denominated stock. The dollar's sharp improvement encouraged institutional demand, particularly from Japan, and this pushed the September contract up to 88-03 at the close, from an opening of 87-14 and Tuesday's close of 87-06. Trading volume was brisk at over 21,000 lots.

News of a sharp decline in May durable goods orders helped to allay recent fears about inflation, although the figures contained a number of distortions. The continued strength of commodity prices and the inflationary implications of the drought in the US mid-west were quietly ignored.

Three-month Enro-dollar deposits were also firmer as traders believed that the US Federal Reserve had moved recently to push interest rates a little firmer. The September price rose to 92.05 from 91.96 on Tuesday, having opened at 91.98.

Three-month sterling deposit futures dipped briefly on news of a rise in UK base rates, but recovered to show only a five tick loss from opening levels and a small rise from Tuesday.

Long term gilt futures also managed to finish with modest gains, as yesterday's rise in base rates was regarded as a positive move towards heading off inflation.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
90	549	605	5	15
92	356	426	12	36
94	213	255	33	101
96	62	146	118	156
98	21	60	241	306
100	7	29	427	439
102	3	13	623	623

Estimated volume total, Calls 792 Puts 1378
Previous day's open int. Calls 23263 Puts 27748

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
82	624	610	18	60
84	440	448	34	134
86	306	334	100	220
88	153	235	147	321
90	100	139	258	435
92	34	112	428	562
94	15	49	609	735

Estimated volume total, Calls 20 Puts 150
Previous day's open int. Calls 625 Puts 695

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements JUL	Puts-settlements Jun	Puts-settlements JUL
17500	1300	1428	0	18
18000	800	976	0	66
18500	303	594	3	184
19000	12	314	212	404
19500	0	140	700	730
20000	0	53	1200	1143
20500	0	—	1700	—

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 20 Puts 135

LIFFE £/$ OPTIONS

LIFFE EURODOLLAR OPTIONS

LIFFE SHORT STERLING

PHILADELPHIA SE £/$ OPTIONS

LONDON SE £/$ OPTIONS

LONDON (LIFFE)

CHICAGO

CURRENCY FUTURES

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS : 68,934

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

MONEY MARKETS

Base rates go to 9%

THERE WAS no great surprise thet the Bank of England signaled a rise in base rates to 9 p.c. yesterday, but once again the timing caught some people off balance. The authorities had resolutely resisted mounting pressure for an increase since the beginning of the week, and traders were beginning to think that next Monday's release of UK trade data for May would provide the catalyst.

A spokesman for the Bank said tbat yesterday's move was designed to keep monetary conditions tight, in order to bear down on inflation. Recent economic data bad snggested a reemergence of inflationary trends.

Interbank rates finished virtually unchanged, as a half point rise had already been discounted. The three-month rate opened at 9½-9 p.c., down from 9⁵⁄₁₆-9³⁄₁₆ p.c. on Tuesday and rose after the announcement to 9⁵⁄₁₆-9³⁄₁₆ p.c. before finishing at 9¼-9 p.c.

The Bank forecast a shortage of around £100m, with factors affecting the market inclnding Exchequer transactions which drained £115m and a rise in the note circulation taking a further £100m. In addition banks brought forward balances £117m below target. These were partly offset by bills maturing outside official hands which, after a take up of Treasury bills and repayment of any late assistance were stripped out, resulted in £234m being added to the market.

The forecast was revised in the morning to a shortage of around £250m, and the Bank took the opportunity to invite houses to borrow funds in the afternoon at 9 p.c. It also stated that it would not invite offers for bills before or after lunch. In the afternoon it revised the forecast to a shortage of £300m and gave assistance of just £65m through lending to the discount houses at 9 p.c.

In Frankfurt the Bundesbank allocated DM12.1bn at yesterday's sale and repurchase tender, at the new fixed rate of 3.50 p.c. Commercial banks, which bid for a total of DM54.9bn, received their allotments yesterday afternoon. This coincided with a maturing facility, which drained DM9.6bn.

The Bundesbank's concern over rising money supply growth - one of the main reasons for Tuesday's rate rise - was given added weight yesterday with the release of M3 figures for April/May. These showed an annualised increase of 7.5 p.c. compared with 7.3 p.c. in the previous period, and well outside the official target growth range of 3-6 p.c. for the year.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Growth & Income	154.3	163.6	+1.2	3.44
Capital	254.6	269.9	+2.1	2.94
Balanced	420.4	445.6xd	+3.7	3.31
Accumulator	648.0	686.9	+5.6	3.12
Income Trusts				
American Income	27.9	24.7	+0.2	4.07
High Income	300.0	118.0	+1.9	4.66
Equity Income	178.5	189.2	+0.8	4.13
High Yield	176.1	186.7	+1.1	4.95
Govt Securities	30.2	31.4	—	7.80
International Trusts				
Amer Spec Sits	00.3	64.2	+0.4	1.65
European Growth	17.7	10.9	+0.2	1.32
International	91.4	97.3	+0.2	1.02
Japan	140.5	149.6	-1.3	0.01
Pacific	220.0	235.2xd	-0.6	0.28
Secs of America	182.3	194.1xd	-2.3	0.89
W'wide Asset Val	26.5	20.3	+0.1	1.06

Bishopsgate Progressive Mgmt Co
15 St James' Place, London SW1A 1NW 01-493 8111

Progressive Inc.	15.49	16.35	+0.24	1.31
Progressive Acc.	21.73	22.95	+0.34	1.31
International Inc.	16.00	16.89	+0.12	1.70
International Acc.	19.85	20.95	+0.15	1.70
Can & Foreign Inc.	183.4	193.5	—	0.94
Can & Foreign Acc.	204.4	215.7	—	0.94
Special Sits Inc.	161.5	170.9	—	2.40
Special Sits Acc.	161.5	170.9	—	2.40

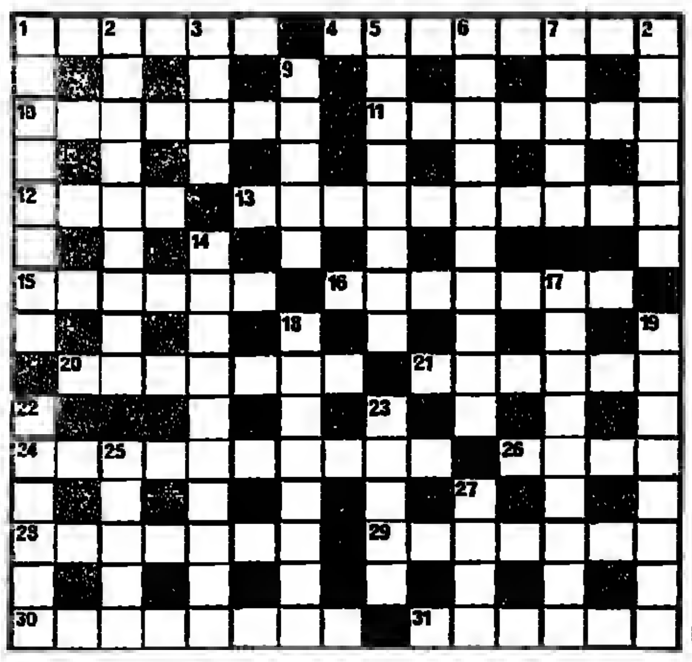
Brewin Dolphin Unit Tst Mgrs Ltd
5 Giltspur St, London EC1A 9DE 01-248 4400

Brewin Capital	192.0	204.3	+1.3	1.53
Brewin Dividend	101.8	108.3	+0.4	5.63
Brewin Int. Gth Inc.	216.4	230.8	+1.6	3.55

JOTTER PAD

FT CROSSWORD No.6,663

SET BY VIXEN



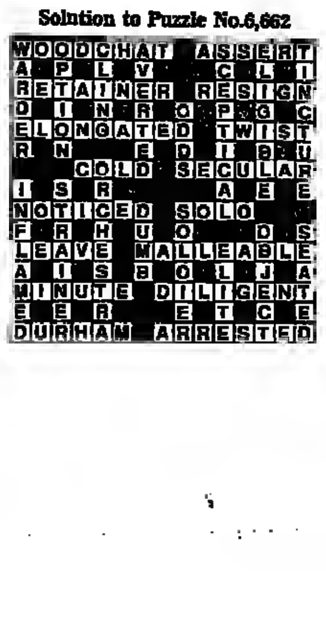
ACROSS

1 A dreadful article written in Iran (6)
4 Base life form? Quite likely (8)
10 A craftsman getting further depressed about the left (7)
11 Called for more heart to be shown in conclusion (7)
12 Pity the woman! (4)
13 Nothing was changed in the city (10)
15 Wants to get points and strives for this (6)
16 High-rise accommodation for workers (3-4)
20 In Paris questionable pharmacies supply it (7)
21 Crawler giving trendy party (6)
24 Belief in imprisonment (10)
26 Check some waste material (4)
28 The object in members' stories (7)
29 Look for ill-will (4-3)
30 Deter the drunk – should be restrained (8)
31 Hang over 21 across (6)

DOWN

1 Insisted upon a dessert being cooked (8)
2 Nowadays the wealthy individual accepting it gets extras (9)
3 To every one the youth-leader is a friend (4)
5 Jumbo plane – the new sort (9)
6 Support the labourer used (6-4)
7 The baronet's holding before capital investment (5)
8 Close little friend in Germany (6)
9 Gloomy note put to the back (5)
14 It's cheerfulness keeps soldiers quiet without one (10)
17 Stay in bed and scoff about splitting tip (3,2,4)
18 Unusual test said to cause abhorrence (8)
19 Impressed over key charge made (8)
22 The beast brought back to the French commander (6)
23 There's many a guy not paying such money (5)
25 "Come into the garden, Maud, for the black bat — has flown" (Tennyson) (5)
27 Enjoy corresponding (4)

Solution to Puzzle No.6,662



FT UNIT TRUST INFORMATION SERVICE

Target Trust Mngrs Ltd
Target Hse, Gatehouse Rd, Aylesbury Bks 0296 394000

American Eagle	62.9	66.9xd	+0.8	1.23
Australia	0.9	9.0	+0.1	0.10
Commodity	81.4	86.6	+0.3	1.04
Convertible	150.3	159.9	-0.9	5.47
Equity	145.1	154.5xd	+1.0	3.18
Euro Spec Sits	78.9	83.5	+2.1	1.30
Financial	31.9	33.4	+0.2	1.88
Global Opps Inc	57.7	61.9	-	1.41
Global Opps Acc	57.7	61.4	-	1.41
Gold Income	56.5	59.9	-0.7	0.83
Gold Acc	103.4	110.0	+1.1	0.83
Income	107.1	114.0xd	+0.2	9.75
Japan	123.4	131.0	-1.0	0.10
Pacific Income	116.0	123.5	+0.8	0.86
Pacific Re Inv	144.5	153.7	+1.0	0.86
Preference Share	25.5	27.2	-0.3	6.72
Special Sits	100.6	107.2	+0.0	0.58
Technology	41.9	44.5	+0.5	0.10
UK Capital	90.3	96.1	+0.4	1.27
World Income	50.5	53.6	-0.2	5.29
Worldwide Capital	145.7	155.0	+0.5	1.15
Equity Exempt	111.0	118.1xd	-	1.54
Equity Exempt Acc	211.5	225.1	-	1.54

Templeton Investment Mngmt
20 Copthall Avenue, EC2R 7PA 01-588 6064

Intl Pen & Ch'ties	89.7	93.4xd	-0.2	-

Thornton Unit Managers Ltd
33 Cavendish Sq., London W1M 7HF 01-493 7262
Dealing 01-493 8545

American Opps	38.5	40.9	+0.6	1.35
(Accum Units)	39.1	41.7	+0.6	1.35
European Opps	41.7	44.5	-	1.06
Far Eastern Opps	84.2	89.8	+0.4	0.45
(Accum Units)	84.5	90.1	+0.4	0.45
Golden Opps	36.2	38.6	+0.4	1.15
Intl Hi-Yield	43.9	46.3	+0.1	9.26
Japanese Opps	59.2	63.1	+0.7	0.88
(Accum Units)	59.2	63.1	+0.7	0.88
Kangaroo	33.1	35.3xd	+0.9	1.27
Oriental Income	28.7	30.6	+0.1	2.02
(Accum Units)	29.2	31.1	+0.1	2.02

INSURANCES

AA Friendly Society

OTHER UK UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	269.1	283.3	-0.8	—
Man Pens Inc & Cap Fds	344.6	362.8	-1.4	—
Money Fund	112.9	118.9	+0.1	—
Pens. Mngd Fd (Unit)	89.1	93.8	+0.9	—
Pens Mngd Fd (Acc)	102.0	107.4	+1.1	—
Pens FT30 Fd (Unit)	129.5	136.4	-0.2	—
Pens FT30 Fd (Acc)	148.2	156.0	-0.2	—
Pens O'seas MgFd(Unit)	58.8	61.9	+0.3	—
Pens O'seas MgFd(Acc)	67.3	70.9	+0.3	—
Pens Fxd Int Fd (Unit)	107.3	113.0	-0.3	—
Pens Fxd Int Fd (Acc)	122.8	129.3	-0.2	—
Pens Deposit Fd (Unit)	101.4	106.8	----	—
Pens Deposit Fd (Acc)	116.1	122.3	+0.3	—

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

American	96.0	102.0	+5.0	—
Building Soc. Fd	161.0	170.0	---	—
Balanced	243.0	256.0	-1.0	—
Deposit	160.0	169.0	---	—
European	124.0	131.0	-1.0	—
G7 Managed	152.0	160.0	+1.0	—
Gartmore Mngd	101.0	107.0	-1.0	—
German	90.0	95.0	+1.0	—
Gilt	170.0	179.0	---	—
High Inc.	114.0	120.0	---	—
International Equity	154.0	163.0	+1.0	—
Japan	219.0	231.0	-2.0	—
Managed	55.0	58.0	-1.0	—
Property	256.0	270.0	---	—
R. W. Imperial Gold	134.0	142.0	---	—
UK Equity	321.0	338.0	-2.0	—
Pension Funds				
American	111.0	119.0	---	—
Building Soc. Fd	152.0	160.0	---	—
Balanced	184.0	194.0	---	—
Deposit	150.0	158.0	---	—
European	122.0	129.0	---	—
G7 Managed	160.0	169.0	---	—
Gartmore Mngd	98.0	104.0	---	—

Prudential Holborn Life Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed Fd	440.6	463.8	+1.5	—
Equity Fd	890.0	936.9	+6.5	—
Intnl. Fd.	510.1	526.5	-0.1	—
Fixed Int. Fd.	366.6	385.4	+0.1	—
Prop. Fd.	325.6	342.8	-0.4	—
Cash Fd.	237.5	250.0	----	—
Pacific Basin Fd.	177.5	186.9	-1.0	—
North American Fd.	126.8	132.7	-0.9	—
European Fd.	127.8	133.7	-0.3	—
Holborn Balanced Gwth Fd	102.1	107.5	-0.4	—
Holborn Strategic Gwth Fd	100.7	106.0	+0.5	—

Prudential Holborn Pensions Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed	479.6	504.9	+1.8	—
Equity	691.3	727.7	+4.5	—
Global Equity	198.3	208.8	+0.3	—
Fixed Interest	378.1	398.0	-1.9	—
Property	319.4	336.3	+0.4	—
Cash	141.0	148.5	+0.1	—
Index Linked Gilt	167.6	176.5	-0.1	—
Guaranteed	8.31		---	—
International Money	185.7	195.5	-0.3	—
North American Fd.	55.6	58.6	+0.5	—
Japanese Fund	123.0	129.5	+1.7	—
European Fund	68.3	71.4	-0.1	—
Special Situations Fd	97.9	103.1	+0.7	—
Communications Fund	84.0	89.5	-0.4	—
Smaller Cos Fund	99.2	104.5	+1.0	—

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

Discretionary June 16	£128.67	132.34	----
Equity Fund June 16	£140.01	144.24	----
Intnl Fund June 16	£21.25	21.95	----
Inct Bond Fd June 16	£10.47	10.62	----
Fixed Int. June 16	£69.12	70.04	----
Index Linked June 16	£52.87	51.53	----
Property Fund Jun 16	£86.86	91.51	----
Cash Fund June 16	£18.7025	18.7025	----

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
100¾	99	Treas. 9½pc '88	100¼	.....	9.49	8.95
102	101¼	Treas 11½pc 1989	101	.....	11.34	9.14
101	99⅞	Treas 9½pc Cnv 1989	100	+	9.48	9.18
97¾	95	Treas 3pc 1989	97	.....	3.09	6.43
102	100	Treas 10½pc 1989	101	+	10.37	9.16
102	100	Exch. 10pc 1989	100	.....	9.93	9.33
103	101	Exch 11pc 1989	101	.....	10.79	9.26
97	95	Treas 5pc 1986-89	96	.....	5.19	7.88
104	101	Exch 10¼pc Cv '89	101	.....	10.08	8.82
107	105	Treas 13pc 1990‡‡	105	.....	12.36	9.31
104	102	Exch 11pc 1990‡‡	102	.....	10.74	9.33
107	104	Exch. 12¼pc 1990	104	.....	11.92	9.36
93	91	Treas. 3pc 1990	92	.....	3.25	7.39
99	96	Treas 8¼pc 1987-90‡‡	98	.....	8.39	9.20
102¼	98	Treas. 8pc Cr 1990 ‡‡	99	–	8.05	8.34
103	100	Treas. 10pc Cv 1990	101	.....	9.87	9.34
91	88	Exch 2½pc 1990	89	.....	2.79	7.28
107	105	Treas 11¾pc 1991	105	.....	11.16	9.38
95	92	Funding 5¾pc '87-91‡‡	93	–	6.17	0.52
90	87	Treas 3pc 1991	88	.....	3.39	7.47
105	101	Treas 10pc Cr '91 ‡‡	102	–	9.77	9.12
107	104	Exch. 11pc 1991	104	+	10.52	9.36
98	95	Treas. 8pc 1991	96	+	8.30	9.24
113	109	Treas 11¾pc 1992‡‡	110	.....	11.58	9.36
104	101	Treas 10pc 1992	101	.....	9.82	9.39
98	94	Treas. 8pc 1992 ‡‡	96	+	8.33	9.26
106	102	Treas 10½pc Cr 1992‡‡	103	.....	10.1[illegible]	9.40
86	83	Treas. 3pc 1992	84	+	3.[illegible]	7.41
112	108	Exch. 12¼pc '92	109	+	11.[illegible]	9.47
117	113	Exch 13½pc 1992	113	.....	11.[illegible]	9.49
40	38	Treas. 0¼pc 1993 (40)●	38	+	[illegible]	9.40
105	100	Treas 10pc 1993‡‡	102¼	–	9.78	9.40

Five to Fifteen Years

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
115	111	Treas 12¼pc 1993‡‡	112	.....	11.16	9.46
93	89	Funding 6pc 1993‡‡	90	.....	6.60	8.17
121	116	Treas 13¾pc 1993‡‡	117	–	11.69	9.49
101	95	Treas. 8½pc 1994	96	–	8.85	9.41
125	120	Treas 14½pc 1994‡‡	121	–	11.92	9.47
120	115	Exch 13½pc 1994	117	–	11.54	9.61
105	100	Treas. 10pc Ln 1994‡‡	102	.....	9.76	9.45
116	111	Exch. 12½pc 1994	113	.....	11.06	9.63
101	95	Treas 9pc 1994‡‡	98	.....	9.15	9.34
114	109	Treas 12pc 1995	111	–	10.77	9.62
83¼	79	Exch 3pc Gas 90-95	79	.....	3.79	6.85

BRITISH FUNDS – Contd

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
130	121	Exch. 12pc '13-'17	127xd	+	9.43	9.20

Undated

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
44	41	Consols 4pc	43	+	9.22	–
39	37	War Loan 3½pc‡‡	38	+	9.05	–
52¼	48	Conv. 3½pc '61 Aft.	51	+	6.80	–
33	30	Treas. 3pc '66 Aft.	32	+	9.25	–
28	26¼	Consols 2½pc	27xd	.....	9.13	–
28	26¼	Treas. 2½pc	27	.....	9.13	–

Index-Linked

1988 High	Low	Stock	Price £	+ or –	(1)	(2)
121	117	Treas 2pc IL '90(84.6)	121xd	.....	0.52	2.27
103	99	Do. 2pc '92‡‡ (97.8)	102	+	2.04	2.79
40	39	Do. 2pc '94 (40)●	40	+	2.49	2.93
139	127	Do 2pc '96(67.9)	139	.....	2.85	3.18
114	103	Do 2½pc '01 (78.3)	114	.....	3.52	3.77
111	101	Do. 2½pc '03(78.8)	111	.....	3.60	5.82
112	102½	Do 2pc '06(69.5)	112	.....	3.68	3.86
105	95	Do. 2½pc '09(78.8)	105	.....	3.71	3.88
109	99	Do. 2½pc '11(74.6)	109	.....	3.71	3.88
90	82	Do. 2½pc '13(89.2)	90	.....	3.71	3.86
98	88	Do. 2½pc '16(81.6)	97½xd	.....	3.68	3.83
95	87¼	Do. 2½pc '20 (83.0)	95	.....	3.64	3.77
80	73	Do. 2½pc '24 ‡‡(97.7)	88xd	.....	3.60	3.72

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (a) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for October 1987:102.9 and for May 1988:106.2

INT. BANK AND O'SEAS GOVT STERLING ISSUES

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
109	100	African Dv Bk 11¼ Ln 2010	104¼	+	10.62	10.56
104	96	Asian Dev Bk 10¼pcLn2009	101¼	+	10.14	10.11
129	120	Australia 13½pc 2010	126	+	10.68	10.42
112	103	Do. 11¼pcLn2015	109	+	10.40	10.33
110	103	Euro Inv Bk 11pc Ln 2002	107	+	10.27	10.04
105	98	Do. 10¼pc2004	102½	+	10.12	10.00
120¼	112	Int-Am Dev Bk 12¼pc 2003	117	+	10.68	10.23
98	91	Do. 9¼pcLn 2015	95	+	10.20	10.22
96	86	Mlysia 10¼ pcLn 2009	96½xd	.....	11.14	11.18
130	107	Sweden 13½pc Ln 2010	126	+	10.64	10.36
109	87	Utd Mexican States 16½pc 2008	108¼xd	+	15.26	15.17

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

1988 High	Low	Stock	Price £	+ or –	Div % Gross	Red. Yield
45	33	Greek 7pc Ass	45	.....	3.50	17.78
45	33	Do. 6pc 28 Stb. Ass.	45	.....	3	16.67
45	33	Do 4pc Mixed Ass.	45xd	.....	2	18.44
75	63	Hung. '24 Ass.	75	.....	2.75	13.67
140	128	Hydro Quebec 15pc 2011	134	+	15.00	10.70
128	118	Iceland 14½pc Ln 2016	127	.....	14.50	11.22
101	96½	Ireland 9¾pc '91-96	99	.....	9.75	9.93

AMERICANS

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
29¼	22¾	Abbott Laboratories$1	25¼	+	$1.20	–	2.6
649p	405p	♦Allegheny & W 1c	484p	.....	30c	–	4.0
13	862p	Amax $1	13xd	+	020c	–	–
30⅞	16¾	Amdahl 5c	30½	+1¼	20c	–	0.4
30	22	Amer. Cyanamid $5	29¼	–	$1.05	–	2.0
15½	11¾	Amer. Express 60c	15¾	+	76c	–	2.8
985p	668p	Amer. Medical Int. $1	984p	+25	472c	–	4.0
17½	13	American T. & T. $1	15	+	$1.20	–	4.3
54½	44	Ameritech $1	52	+1¼	$5.40	–	–
27	16½	Amfac	26	.....		–	–
10½	15	Anheuser-Busch $1	17¼xd	–	60c	–	1.9
688p	360p	BankAmerica $1	681p	+6		–	–
21	16	Bankers N Y. $10	20	+	$1.86	–	9.1
41	34	Bell Atlantic $1	41	+	$4.08	–	5.4
24	19	BellSouth Corp.	24	+	$2.36	–	5.4
12½	850p	♦Bethlehem Steel $8	11	–		–	–
12¼	801p	Bio-Rad Labs Inc. "A"	12	–		–	–
23	15¼	Bowater Inc.	19xd	+	92c	–	2.6
15	11	Browning-Ferris 16.6c	14xd	+	48c	–	1.9
13¼	787p	Brunswick 75c	11	+	44c	–	2.1
27	21	CPC Intnl. 25c	26	+	$1.44	–	3.0
17	13	CSX $1	15	+	$1.24	–	4.3
16	11½	CalFed Inc $1	14	+	$1.40	–	5.2
16	12	Campbell Soup 15c	14xd	+	84c	–	3.2
37	31	Caterpillar Inc $1	37	+	75c	–	1.1
16½	11	Chase Manhattan $12½	15	+	$2.16	–	7.5
17	11	Chem. Banking Corpn	17xd	+	$2.72	–	8.8
15	11	Chrysler $6¼	13xd	+	$1.00	–	3.9
13	9	Citicorp $1	13	+	$1.48	–	6.1
297p	168p	CityFed Fla. Corp.	232p	-28	4c	–	0.9
25	20	Colgate-Palmolive $1	24	+	$1.48	–	3.3
17½	13½	Cons Freightways 62½c	15½	+	90c	–	3.5
295p	134p	Contl Illinois Corp $1	287p	.....	8c	–	1.5
14p	7p	Cont Illinois Hldgs $1	7p	.....		–	–
344p	117p	♦Corporate Data Scnce	344p	.....		–	–

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS—Contd

1988 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
26½	21¼	Tenneco $5	26¼	+⅛	$3.04	—	6.3
28⅝	19⅞	Texaco $6.25	27¼	+⅜	♦$3.00	—	6.1
54⅛	43⅞	Time Inc. $1	54⅛	+⅜	$1.00	—	1.0
20⅛	13⅞	Transamerica $1	19¾	+⅛	$1.84	—	5.2
10½	754p	Transworld Corp $5	994p	.....	20c	—	1.1
20¼	14½	TRINOVA Corp	17	+¼	56c	—	1.0
19	13¼	USX $1	17⅝	+⅛	$1.20	—	3.7
23	17⅝	Utd. Technologies	22⅛	+⅝	$1.60	—	4.0
31¾	26¼	U S West‡	31¼	+⅜	$3.52	—	6.1
21¼	16⅜	Waste Management $1	20⅛	+⅜	48c	—	1.3
16⅛	12⅞	Whirlpool $1	16⅜	+¼	[illegible]	—	3.7
32⅞	18¼	♦Woolworth $3½	29	[illegible]	[illegible]	—	3.0

CANADIANS

1988 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
309p	173p	ABM Gold Corp ‡	181p	−5	—	—	—
32p	11p	♦Abbot Energy Corp	24½p	.....	—	—	—
14¼	990p	♦Amer. Barrick Res.	12⅞	+⅛	—	—	—
10p	3½p	American Lightwave	6p	.....	—	—	—
47p	18¾p	♦Armeno	21p	.....	—	—	—
76p	45p	Augmitto Explo.	65p	−1½	—	—	—
13	10⅞	Bk. Montreal ‡	13	+⅛	$2.00	—	6.8
659p	314p	Bk. Nova Scot. ‡	659p	+24	76c	—	5.1
17⅞	13¼	BCE ‡	17⅛	+⅛	$2.44	—	6.2
716p	591p	♦Bow Valley‡	659p	+9	40c	—	2.7

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING – Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

High	Low	Stock		Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
29	19	Peasant Grp. 2p	γ	28	–1	d0.2	–	1.0	–
56	33	Propeller 1p	γ	55	+1	–	–	–	♦
31	13	Publishing Hldgs. 5p	γ	18	.....	–	–	–	10.8
205	150	Royal Sovereign Grp 10p		205	.....	4.6	1.9	3.0	19.2
26	22½	Scott Pickford 10p	γ	25	.....	3.1	8.7	16.5	13.0
80	68	Seacon Hldgs.	γ	76	.....	–	–	–	♦
27	18	Stats Hldgs. 5p	γ	19	+1	–	–	–	48.6
4½	3	Swanyard Studios 1p	γ	3½	.....	–	–	–	18.5
262	200	Takare	γ	235	.....	b1.0	8.3	0.6	24.1
70	41	Theme Holdings	α	65	+2	¶1.1	♦	2.3	♦
[illegible]	26	Tomorrows Leisure 20p	γ	26	–2	–	–	–	10.4
[illegible]	13½	Tullow Oil 10p	γ	17	–1	–	–	–	–
[illegible]	118	UPL Group 10p	γ	118	–2	(2.4)	♦	2.7	♦
[illegible]	120	Usit Group	γ	143	–1	5.0	♦	♦	♦
[illegible]	85	Video Tape Record 5p	γ	92	–3	‡2.3	2.3	3.5	13.2

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock		Price	+ or –
Albany Inv 20p	γ	70	.....
Craig & Rose £1	γ	660xd	.....
Finlay Pkg. 5p	γ	80	.....
Holt (Jos) 25p	γ	£11½	.....

IRISH

Stock		Price	+ or –
Nat. 9¾% 84/89		£100¾	.....
9pc Cap Ln. 1996		£98¾	.....
Fin. 13% 97/02		£119	.....
Arnotts	γ	400	+20
CPI Hldgs.	γ	116	.....
Carrol Inds.	γ	140xd	.....
Hall (R. & H.)		165	.....
Helton Hldgs.	γ	54	+3
Irish Ropes	γ	345	.....
Unidare	γ	410	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp.	36
BSR	6
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord.	21
Cadburys	32
Charter Cons.	30
Comm Union	34
Courtaulds	34
FKI Babcock	13
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd.	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen.	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	58
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk.	52
P & O Dfd.	52
Plessey	16
Polly Peck	30
Racal Elect.	32
RHM	30
Rank Org Ord.	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property	
Brit Land	30
Land Securities	52
MEPC	52
Peachey	58

Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	40
Premier	7½
Shell	95
Ultramar	26

Mines	
Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Jun 6	Jun 16	Jun 17	Jun 27
Jun 20	June 30	Jul 1	Jul 11
Jul 4	Jul 14	Jul 18	Jul 25

*New time dealings may take place from 9.00 am two business days earlier.

Equities move ahead strongly despite base rate hike but Gilt-edged lack support

THE WIDELY-PREDICTED half point rise in UK base rates was upstaged by wider developments in world currencies yesterday as the London equity sector moved ahead strongly. Government bonds were more cautious, however, ending with very small gains despite the opening advance in the US Federal bond sector.

The FT-SE index gained nearly 20 points, brushing aside potential testing levels, on a significant increase in turnover.

The strength of the US dollar, backed up by a powerful opening on Wall Street, brought widespread gains in international stocks in London. However, the general advance in the market leaders masked weakness in British Petroleum as heavy turnover signalled City fears that the Kuwait Investment Office (KIO) will trim its stake from 22 per cent to 15 per cent in response to anti-monopoly pressures in the UK.

Mr Fouad Jaffar, deputy chairman and chief executive of the KIO declined comment on yesterday's activity in BP shares but told the FT, "If we had reduced our stake in BP we would have been required by law to announce it. If you have not seen an announcement, we obviously have not reduced our stake".

Share prices were on the move early as weakness in the Japanese currency brought European buying of US stocks. The initial dip in sterling alerted traders to the likelihood of a base rate hike. However, equities paused only momentarily on the Bank of England's signal for the move to 9 per cent base rates, and shares soon moved up again in anticipation of a strong start in the New York markets.

The FT-SE Index closed at virtually the best of the day, with a net gain of 19.2 at 1879.3. While buying pressure focussed around the blue chip leaders, a Seaq volume total of 521.6m indicated the best trading session for some weeks.

There was some relief that Mr Nigel Lawson, the UK Chancellor of the Exchequer, had rested content with a rise of only half a point in domestic rates. A full point was considered to be on the cards and, "the other half may not be far off", was the view in the City, where 10 per cent base rates by the year-end are still believed to be in prospect.

The main reason for equity bullishness is that, "the dollar may be on the turn", said Mr Ian Harwood of Warburg Securities. This would remove a major apprehension for all dollar sensitive markets, including London.

Government bonds started well, adding ¼ point in response to Japanese buying of US bonds overnight. However, support died away following the increase in UK rates and, despite the renewed advance by Federal issues when New York opened, UK Gilts closed barely $\frac{1}{16}$ up.

There was heavy turnover in British Petroleum shares after Kleinwort Grieveson, the UK securities ghouse, downgraded its dividend forecast for the oil group, and advised clients to switch temporarily out of BP and into Shell or Burmah.

Turnover of 20m BP new shares left the price a touch off at 66p, after trading between 68p and 64 on. The old ended 2 down at 263p with 7.5m shares traded.

Kleinwort, believing that BP, as a production-orientated group, could suffer from a softening in crude prices, has cut its dividend forecast for the year from 13.5p to 13p, against last year's 12.5p. Some investment funds are believed to be nervous ahead of the second call of 105p on BP new shares, due in August.

British Gas, with 18m shares traded, moved to 194p, later closing unchanged at 192p. Among speculative features, Enterprise Oil hardened to 470p with the market poised for a drilling announcement.

DRG, the packaging and stationery group best known for its Sellotape brand, rose sharply as rumours of a bid circulated. The shares closed at 443p, up 17. Mr Barry Stevenson, DRG's finance director, said yesterday that DRG had not received a takeover approach.

The Kuwait Investment Office has built up a near 11 per cent stake in DRG since last autumn. Mr Stevenson said DRG had met the KIO and considered the relationship to be normal.

Speculation centred on Torras Hostench, a Spanish paper, chemicals and food group, which on Monday launched a £100m Euro-convertible bond issue. The KIO has a 45 per cent stake in Torras Hostench, and yesterday it was suggested the stake in DRG may have been transferred to Madrid.

Ferranti International raced up 3½ to 88p on turnover of 16m. The stock was boosted by a twin thrust, with the major impetus coming from a 63 page buy recommendation issued by BZW. In the background were rumours of a major buying order thought to have been on behalf of one of the top US defence groups - Hughes Corporation were widely mentioned.

FINANCIAL TIMES STOCK INDICES

	June 22	June 21	June 20	June 17	June 16	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	89.15	89.10	89.06	89.35	89.85	91.07	91.43 (18/4)	86.97 (13/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.99	98.15	98.11	98.38	98.48	98.07	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1496.5	1481.6	1468.7	1472.6	1481.6	1773.4	1485.6 (15/6)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	215.7	215.9	218.7	215.5	221.2	373.6	312.5 (7/1)	195.4 (13/5)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.45	4.50	4.53	4.52	4.49	3.23				
Earnings Yld. %(full)	11.14	11.55	11.63	11.58	11.52	7.78				
P/E Ratio (net)(*)	10.69	10.56	10.48	10.33	10.58	15.83				
SEAQ Bargains (5pm)	24,746	21,760	21,247	30,657	28,026	40,002				
Equity Turnover (£m)	-	955.98	720.80	1137.64	1187.29	1644.23				
Equity Bargains	-	24,865	24,942	30,657	30,442	45,394				
Shares Traded (ml)	-	395.3	327.3	531.1	517.3	593.0				

S.E ACTIVITY

Indices	June 21	June 20
Gilt Edged Bargains	103.5	107.4
Equity Bargains	161.1	161.6
Equity Value	1932.3	1456.9
5-Day average		
Gilt Edged Bargains	112.4	117.1
Equity Bargains	187.3	189.4
Equity Value	2163.5	2304.3

♥ Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1485.8	1485.8	1485.6	1487.1	1486.7	1487.0	1494.0	1495.5

Day's High 1496.6 Day's low 1484.1

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974. * Nil=10.50.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

The BZW document points to the positive features of the merger with ISC, highlighting the opportunities in world defence markets, and also features the likelihood that Ferranti will be awarded one of the first operating licenses for a new form of mobile communications – digital cordless telephones.

BZW also highlights takeover possibilities and the possibility that Ferranti might win the Euro fighter Aircraft radar contract due to be announced post–September.

Cable & Wireless shares rose 4 to 379p, after 380p, after the group announced preliminary profits up some 5 per cent at £356m, at the top end of market expectations.

But the market was more interested in C & W's view of Racal where it was confidently said that C & W has a 2.8 per cent stake. The market now awaits Racal's preliminary results and also the Goldman Sachs valuation of Vodafone, details of which are expected on June 28. Racal shares leapt 12 to 340p on turnover of 8.6m after news of the C & W stake.

Pilkington shares were lifted by a strong rumour originating in the traded options market that BTR had increased its stake from 3.9 to 4.2 per cent - around 2m shares were supposed to have changed hands. Pilkington moved up sharply in response, putting on 14 to 215p in firm turnover. By coincidence, a Morgan Grenfell "Buy" circular recommended Pilkington as a "sound medium term investment".

A BTR spokesman would not comment on the rumours, but as the day wore on dealers clearly had second thoughts and a new story emerged. This time BTR was rumoured to have sold its stake to a third party - one marketmaker described this as highly speculative given the volumes involved. Pilkington remained well supported, however, and the shares ended 11½p better at 212½p with turnover at 8.2m. BTR put on 4 to 272p with 1.8m shares changing hands.

International stocks were buoyed by the good overnight performance on Wall Street and the dollar's subsequent strength against the yen and most of the leading stocks recorded good gains. ICI led the way, putting on 20 to 1070p, although turnover struggled to break past 1m shares. The launch of the drug Cefuroxime in Japan helped Glaxo to advance 23 to 986p, but the chief influence was the dollar. The company fixes its exchange rate for reporting purposes at the end of this month and dealers are anxiously watching for the effects of dollar appreciation.

Reckitt & Coleman rose 13 to 907p as dealers reported a shortage of stock, while Reuters benefited from ADR arbitrageurs and put on 16 to 552p. Hanson again saw excellent turnover, this time of 10m shares, and rose 2 to 142p. BOC followed the market higher, gaining 8 to 414p.

Beecham lagged somewhat, adding 4 to 469p following analysts' worries that its recent underperformance is set to continue, while Fisons rose 7 yo 475p. Wellcome eased down 3 to 536p amid a wide spread of opinions on prospects for its anti-Aids drug Retrovir.

The clearing banks gave a positive response to developments on third world debt at the Toronto summit. Lloyds, perceived to have the biggest exposure to LDC debts, moved up 12 to 308p while Midland jumped 11 to 445p, as did NatWest, to 578p. Barclays added 7 at 420p. But turnover in the sector was generally on the thin side, with the exception of Lloyds where some 3.5m shares were traded.

The current bid flavour left the merchant banking sector. First National Finance jumped 9 to 268p ahead of imminent figures.

The focus of interest in insurances moved into the broking sector where Hogg Robinson Gardner Mountain spurted to 179p before closing a net 19 higher at 173p amid late rumours of an imminent bid from US group Corroon and Black. Associate Hogg Robinson Travel jumped 4 to 215p ahead of figures expected on July 6. Sedgwick surged ahead to close 13 firmer at 238p as the market got wind of a broker's upgraded profits forecast. Willis Faber rose 5 to 269p in sympathy.

Brewery stocks took a breather, with Allied Lyons 2 better at 441p in steady turnover of 2.9m shares. Dealers said there was some switching activity out of Bass into Allied, which depressed Bass for most of the day until a late rally left the shares with a gain of 2 at 798p. Turnover was 2.3m.

Guinness continued to enjoy strong institutional support on fundamentals and put on 3 to 337p. Scottish & Newcastle stood still at 345p while marketmakers pondered its recent rise. Elders IXL is now thought to have bought more S&N shares before acquiring the IEP stake, which has added fuel to speculation that a bid is imminent.

Among the second liners, Vaux stood out with a rise of 8 to 596p on hopes that Sir Ron Brierley might increase his stake prior to launching a bid.

The cement producers made significant progress as the session wore on as stories of another cement price increase began to circulate. BCI leapt 9 to 421p on the rumours, whileRMC edged up 3 to 486p and Rugby Portland Cement 3 to 138p. The sale of the Southerns unit to Harrisons Crosfield boosted Magnet 3 to 240p, while Tuesday's figures continued to help Meyer which jumped 12 more to 395p. BPB added 5 to 300p ahead of Friday's preliminary figures. Market stories that Trafalgar House is adding to its stake in Costain lifted the latter 5 to 320p.

Stores had a steady day, following the flow of the market. Harris Queensway was one of the few exceptions, easing 8 to 156p over uncertainty about the Argyll bid.

On the firm side, GUS "A" continued higher to 1038p, up 19, still on rumours that it is ready to sell its shoe interests.

British Telecom attracted heavy and sustained buying interest in the wake of the strong performances by Cable & Wireless and Racal; Telecom shares jumped 5 to 249p on turnoverof 9.2m.

Hopes of expansion either by a US acquisition of joint ventures in Europe aroused increased buying inquiries for Weir Group which rose to 247p, up 14 on the day. Bid speculation boosted sentiment, but business was two way for much of the session.

Other Engineerings were firmer, Arthur Lee jumping 7 to 122p after revealing sharply higher interim profits. Staveley Industries' annual results had been discounted and the close was slightly higher at 163p. Another acquisition and a vendor share placing left Haden MacLellan 4 dearer at 140p.

S & W Berisford were singled out among foods, rising 9 to 340p, on rumours that Gary Weston's A B Foods could be ready to sell its 23.7 per cent stake. ABF ended 8 better at 295p.

RHM meanwhile went higher amid renewed talk of imminent developments concerning the Goodman Fielder shareholding and closed strongly at 399p, up 16. Takeover hopes led to a revival in Bejam, 11 dearer at 175p, while Christian Salvesen moved ahead 7 to 171p reflecting the chairman's forecast of increased profit growth. Hillsdown emerged from a lean spell, gaining 10 to 288p.

Good first-half profits boosted Anglia TV, which rose 10 to 183p.

The motors sector featured a good run by Jaguar on turnover of 2.8m shares. The shares gained 12 to 282p on improved currency hopes which underpinned the group's US sales prospects.

Of the leading property stocks, only Hammerson "A" featured with a rise of 23 to 654p on the back of favourable currency movements.

Marler was another to show, as a Norwegian concern acquired an option to buy 20.7m shares, and closed at 90p.

Dawson International, regarded by many as the Textile sector's prime bid target, settled 27 higher at 246p.

Harrisons & Crosfield dominated overseas traders after the acquisition of UK timber merchants Southerns-Evans for £85.5m, gaining 9 to 651p.

Tozer Kemsley, a subsidiary of Brierley Investments, benefited from rumours that Sir Ron Brierley might sell his 57 per cent stake and closed up 4 on 103p.

Trading in the Options Market was active, with a total 46,675 contracts traded, made up of 33,018 calls and 13,657 puts. The largest bargain of the day was in the August 1950 calls, with no less than 1,500 contracts moved in one lot to close out an open position.

The FT-SE Index Steering Committee decided yesterday to delete Globe Investment Trust from the Footsie index and replace it with Lucas Industries, effective from the start of business on July 1.

Traditional Options

- First dealings June 13
- Last dealings June 24
- Last declarations Sept 15
- For Settlement Sept 24

For rate indications see end of London Share Service

Money was given for the call of Brierley Invs., Highland Participants, Benlox, MBS, London Securities, A.Fisher and Norfolk Capital. Puts were arranged in Racal, Highland Participants & INOCO but no doubles were recorded.

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (194).
AMERICANS (9) CANADIANS (8) BANKS (2) BREWERS (6) BUILDINGS (13) CHEMICALS (2) STORES (8) ELECTRICALS (15) ENGINEERING (8) FOODS (8) INDUSTRIALS (31) INSURANCE (2) LEISURE (2) MOTORS (2) NEWSPAPERS (2) PAPERS (8) PROPERTY (14) SHIPPING (1) TEXTILES (3) TOBACCOS (1) TRUSTS (34) OILS (8) OVERSEAS TRADERS (4) PLANTATIONS (4) MINES (9) THIRD MARKET (7).

NEW LOWS (16).
CORPORATION LOANS (1) Birmingham 13½pc. 1989. LOANS (2) N'wide Anglia 10$\frac{11}{16}$pc. 12.9.88, Do. 10⅝pc. 29.9.88, BUILDINGS (1) McAlpine (Alfred), ELECTRICALS (4) Neotronics Tech., Pericom, Questel, Telecomputing, INDUSTRIALS (3) Davies (D.Y.), Highgate & Job, SAC Intl., MOTORS (1) BTS, PAPERS (1) Horne (Robert), SHOES (1) Pittard Garner, TRUSTS (1) TR Tech. Stepped Prof., OILS (1) Arabex Pet.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA Group	3,000	General Accident	322	Prudential	1,900
Allied-Lyons	2,900	General Elect.	3,700	Racal	8,600
Amstrad	465	Glaxo	1,800	Rank Org.	334
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	58	20	35
Corporations, Dominion and Foreign Bonds	17	13	23
Industrials	581	204	779
Financial and Properties	267	53	330
Oils	26	20	62
Plantations	4	0	6
Mines	53	39	89
Others	118	39	112
Totals	1,124	388	1,449

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

	Wednesday June 22 1988 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Tue Jun 21 Index No.	Mon Jun 20 Index No.	Fri Jun 17 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (208)	793.26	+1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Building Materials (29)	1022.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction (35)	1603.77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals (12)	2121.77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics (31)	1715.97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Mechanical Engineering (56)	405.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (8)	478.22	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (13)	282.01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrial Materials (24)	1313.44	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (187)	1106.37	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (21)	1137.81	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (23)	998.39	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (16)	2047.32	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (12)	1880.76	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Leisure (30)	1353.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging & Paper (17)	519.24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Publishing & Printing (17)	3463.42	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (34)	827.39	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (17)	599.77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (92)	913.44	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Agencies (19)	1200.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (20)	1085.44	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (13)	1226.64	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Shipping and Transport (12)	1940.16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Telephone Networks (2)	1054.08	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Miscellaneous (26)	1196.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (487)	983.72	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (13)	1873.19	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	1058.98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (122)	717.59	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (8)	605.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (8)	1036.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	565.14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (7)	1067.07	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (11)	367.79	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (51)	1253.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (30)	388.41	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (78)	909.33	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81 Mining Finance (2)	551.92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91 Overseas Traders (8)	1161.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (710)	969.90	+1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Index No.	Day's Change	Day's High	Day's Low	Jun 21	Jun 20	Jun 17	Jun 16	Jun 15	Year ago
FT-SE 100 SHARE INDEX ‡	1879.3	+19.2	1879.8	1862.8	1860.1	1844.0	1858.1	1858.1	1869.3	2284.0

FIXED INTEREST

PRICE INDICES	Wed Jun 22	Day's change %	Tue Jun 21	xd adj. today	xd adj. 1988 to date
British Government					
1 5 years	122.28	+0.04	122.23	-	5.51
2 5-15 years	138.67	+0.08	138.55	-	7.09
3 Over 15 years	148.50	+0.16	148.24	-	6.80
4 Irredeemables	165.30	+0.16	165.05	-	6.31
5 All stocks	135.88	+0.08	135.77	-	6.55
Index-Linked					
6 5 years	127.60	+0.04	127.56	-	1.12
7 Over 5 years	121.28	+0.01	121.27	-	1.72
8 All stocks	121.62	+0.01	121.60	-	1.67
9 Debentures & Loans	118.69	-0.03	118.73	-	5.94
10 Preference	93.96	+0.53	93.46	-	3.31

AVERAGE GROSS REDEMPTION YIELDS		Wed Jun 22	Tue Jun 21	Year ago (approx.)
British Government				
1 Low	5 years	9.02	9.02	8.06
2 Coupons	15 years	9.22	9.20	8.50
3	25 years	9.09	9.10	8.95
4 Medium	5 years	9.48	9.49	9.02
5 Coupons	15 years	9.47	9.49	9.14
6	25 years	9.29	9.31	9.14
7 High	5 years	9.57	9.57	9.10
8 Coupons	15 years	9.45	9.47	9.25
9	25 years	9.36	9.37	9.25
10 Irredeemables		9.19	9.21	8.93
Index-Linked				
11 Inflation rate 5%	5yrs.	2.66	2.66	2.54
12 Inflation rate 5%	Over 5 yrs.	3.80	3.80	3.73
13 Inflation rate 10%	5yrs.	1.62	1.62	2.29
14 Inflation rate 10%	Over 5 yrs.	3.63	3.62	3.69
15 Debs &	5 years	10.31	10.32	9.81
16 Loans	15 years	10.78	10.78	10.10
17	25 years	10.74	10.73	10.20
18 Preference		9.54	9.59	10.15

‡Opening index 1865.3; 10am 1865.1; 11 am 1863.4; Noon 1865.4; 1 pm 1866.3; 2 pm 1867.9; 3 pm 1878.2; 3.30 pm 1878.1; 4 pm 1878.6

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

Option		CALLS Jul.	CALLS Oct.	CALLS Jan.	PUTS Jul.	PUTS Oct.	PUTS Jan.
Allied Lyons (*439)	390	55	67	73	2	6	10
	420	28	42	53	7	13	20
	460	6	22	32	27	33	40
Brit. Airways (*151)	130	23	-	-	1	-	-
	140	14	20	22	2	6	10
	160	2½	11	15	13	16	21
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		CALLS Aug	CALLS Nov	CALLS Feb	PUTS Aug	PUTS Nov	PUTS Feb
LASMO (*449)	390	75	87	97	5½	15	22
	420	47	62	77	13	27	35
	460	24	42	58	35	52	55
P. & O. (*597)	550	60	72	90	6	16	25
	600	23	40	53	20	37	44
	650	8	20	-	60	67	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Total Contracts 46,675 Calls 33,018 Puts 13,657
FT-SE Index Calls 5364 Puts 1898
*Underlying security price

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

WORLD STOCK MARKETS

AUSTRIA [illegible]

FRANCE [illegible]

GERMANY (continued) [illegible]

NETHERLANDS (continued) [illegible]

SWEDEN (continued) [illegible]

BELGIUM/LUXEMBOURG [illegible]

DENMARK [illegible]

FINLAND [illegible]

ITALY [illegible]

SPAIN [illegible]

SWITZERLAND [illegible]

NORWAY [illegible]

SOUTH AFRICA [illegible]

JAPAN [illegible]

AUSTRALIA (continued) [illegible]

HONG KONG [illegible]

SINGAPORE [illegible]

CANADA

TORONTO

2pm Prices June 22

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 3pm Prices June 22

Continued from page 39

[illegible]

SHL Sy s		1256	5¼	N	N⅛	Sunmpr		
SKF AB4.73e		64	40½	48	40½ + 1⅛	Sumtrp .40	11 577 u22⅛	21⅞ 22 + ⅛
Safecrd		N 2975	7	6½	6⅞	SumtB .72b	11 54 23½	23¼ 23½ + ¼
Safeco	1.08	7 2537	25½	25	25⅛	SunGrd	22 910 18½	17⅞ 10½ + ½
Sahlen		13 2370	2 9-16	2 7-16	2½	SunMic	28 17086 39	37½ 38 + ⅛
StJude		19 253	36⅛	35⅜	36 + ⅛	Sunwst s 1a	6 57 23	34¼ 24¼
StPaulB .30		102	10⅞	10½	10⅛ + ⅛	Symbio	275 102 8⅛	7½ 8¼ + ⅞
						SysSo	7 480 8⅛	5⅞ 8⅛ − ⅛

VM Sk		27 172	13¼	10¼	13½ + ¼	
VWR	.80	12 55	20½	20¼	20¼ − ½	
ValidLg		300 4519	8½	5⅞	8	
ValFSL		8 88	12⅛	12⅛	12¼ − ½	
ValNtl	1.44	1452	27⅛	27⅛	27½ + ⅛	
Xyvan		185	8½	8⅞	8½ − ⅛	
YlowF s .62	17	292	28⅝	28¼	28⅜ + ⅛	
ZionUt 1.44		8	23⅞	25½	25½ + ¾	
Zondvn	31	68	N⅛	8½	N½ − ⅛	

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES

Anglia TV	183	+	10
Bejam	115	+	11
Berisford (S.& W.)	340	+	9
Blue Circle	442	+	10
Brookmount	485	+	15
Cowie (T.)	121	+	11
DRG	443	+	17
Dawson Intl.	245	+	27
Energy Capital	26	+	N
England (J.)	65	+	12
Glaxo	595	+	23
GRE	956	+	26
Harrisons & Crosfld.	651	+	N
Hillsdown Hldgs.	289	+	10
Hogg Rob.& Gar.	173	+	16
Hunter	£10	+	1
ICI	£10⅛	+	¼
Jaguar	282	+	12
Lee (A.)	122	+	7
Lloyds Bank	308	+	12
Pilkington	212½	+	11½
Priest Marians	485	+	20
RHM	399	+	18
Racal Elect.	340	+	12
Reckitt & Colman	920	+	13
Sedgwick Group	236	+	13
Tex Hldgs.	169	+	12
Weir	247	+	14

TOKYO - Most Active Stocks
Wednesday, 22 June, 1988

	Stocks Traded	Closing Prices	Change on day
Toray	72.62m	956	-9
Nippon Steel	58.27m	546	-8
Kawasaki Steel	46.24m	563	-14
NHH	41.57m	531	-14
Sumitomo Chem	37.43m	1,120	-10
Nisshin Steel	36.66m	915	-35
Sumitomo Metal	30.37m	503	-11
Japan Steel Works	30.31m	632	-15
Nippon Seiko	28.31m	808	+14
Mitsubishi Heavy Ind	27.90m	815	-15

INDICES

NEW YORK DOW JONES

	Jun 21	Jun 20	Jun 17	Jun 16	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2109.17	2083.93	2104.02	2094.24	2131.40 (15/6)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.56	88.33	88.45	88.58	91.25 (3/3)	86.12 (4/1)	-	-
Transport	868.13	856.93	864.10	865.89	904.12 (25/3)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	182.14	180.00	180.60	179.47	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2115.75 (2100.11) Low 2072.55 (2072.72)

STANDARD AND POOR'S	Jun 21	Jun 20	Jun 17	Jun 16	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite‡	271.67	268.94	270.68	269.77	274.45 (15/6)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	313.91	310.88	312.80	311.96	317.36 (15/6)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	24.51	24.26	24.49	24.39	24.82 (15/6)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	153.29	151.96	152.84	152.44	154.67 (15/6)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	306.00	305.12	305.70	307.07	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	387.75	386.00	386.92	387.10	389.08 (15/6)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

Dow Industrial Div. Yield; S & P Industrial div. yield; S & P P/E ratio; TRADING ACTIVITY [illegible]

CANADA

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

AUSTRALIA, AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, HONG KONG, ITALY, JAPAN, NETHERLANDS, NORWAY, SINGAPORE, SOUTH AFRICA, SPAIN, SWEDEN, SWITZERLAND, WORLD [illegible]

Closing Prices June 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
		— A — A — A —								
26	14	AAR s	.36	1.4	21	177	25¾	25	25¾	+ ⅛
12⅛	8¾	ACMIn	n1.19e	10.		369	11⅞	11¾	11⅞	+ ⅛
12⅛	10¾	ACMSc	n1.26	11.		607	11⅛	11⅛	11⅛	
10⅛	9¾	ACMSp n				507	9⅞	9¾	9¾	
27¾	16½	AGS			20	478	25⅞	25⅛	25⅛	− ⅛
7⅞	2⅛	AMCA				1443	4⅛	3⅞	4⅛	+ ⅛
6⅛	3⅛	AM Ing				5322	4	3⅞	4	+ ⅛
29⅛	17	AM Int pf	2	11.		27	18⅞	18⅝	18⅞	+ ⅛
65½	26⅛	AMR			12	7185	48½	47⅛	48⅛	+ 1⅛
24⅛	19	ANR pf	2.12	9.0		224	23⅝	23⅞	23⅝	+ ⅛
11⅛	3⅞	ARX			17	283	6½	6⅛	6⅛	− ⅛
72⅞	40⅛	ASA	3	6.8		479	44⅛	43⅛	43⅞	− ⅛
20⅛	9½	AVX			13	519	18	17⅞	17⅞	− ⅛
60⅛	40	AbtLab	1.20	2.7	16	5921	45⅛	44⅞	45⅛	+ ½
28	18⅛	AbtRtl g	1			30	18⅞	18⅞	18⅞	− ⅛
18⅛	8½	AcmeC	.40	3.5		79	11⅛	11⅛	11⅛	
18½	6⅝	AcmeE	.32b	4.6	22	4	7½	7	7	− ⅛
25	14½	AdaEx	3.05e	19.		29	16⅛	15⅞	16⅛	+ ½
19⅛	8⅞	AdamMl	.24	1.5	13	49	15⅝	15½	15⅝	+ ⅛
24⅞	7½	AMD				5906	16⅛	15⅞	16	+ ⅛

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

AMEX COMPOSITE PRICES

Closing Prices June 22

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OVER-THE-COUNTER

Nasdaq national market, 3pm Prices June 22

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

Continued on Page 37

Political uncertainty dogs Chile's market

By Mary Helen Spooner in Santiago

TWO months ago Santiago's stock exchange registered a seemingly inexplicable drop of 4.2 per cent on the selected stock price index.

A few blocks away, Chile's central bank had recently released monthly figures suggesting the country's economy was one of the most promising in Latin America: a 4 per cent rise in the GDP growth rate during the first quarter of this year, a more than doubling in foreign investment over 1987, and tentative agreement among Chile's commercial creditor banks to modify some portions of its earlier debt renegotiation accord.

The reason for the stock index drop was not technical, but political: a group of 13 political parties opposed to General Augusto Pinochet's regime had announced they were joining forces to defeat the still-unnamed government candidate in this year's one-man presidential plebiscite, and Chile's largest pro-government political organisation was attempting to hold internal elections which gave way to a painful split.

"There is an outside factor which influences Chilean share prices," said Mr Eugenio Blanco, president of the Santiago stock exchange. "For many investors, the spectre of a 'no' victory in the plebiscite signifies an end to economic progress and a return to socialism."

He predicted that the Chilean stock market would reflect this political uncertainty until after the vote, which is expected to be held toward the end of this year.

Economic factors do, however, influence the market. The selected stock price index of 40 shares, has jumped 5.8 per cent in the past two days to close at 116.88 on news of a reduction in the rate of value added tax.

The Santiago exchange, where daily turnover in more than 200 listed companies amounts to about $10m, has seen both share prices and the number of investors increase over the past three years. The final phase of the Pinochet regime's privatisation programme, in which about 30 mainly profitable state enterprises are being listed on the exchange, along with a plan to encourage government employees to purchase shares in their newly public enterprises, has generated thousands of first-time small shareholders.

Last year, eight of the Santiago exchange's 10 most active stocks were newly-privatised state companies, with Compania de Acero del Pacifico, the former state steel enterprise, topping the list. Others included the former state nitrate company Soquimich, the Chilean Telephone Company and the state power company.

Other new participants in Chilean stock trading are the country's private pension funds, which two years ago were authorised to buy shares in selected blue chip enterprises.

Foreign investors may also buy and sell Chilean stocks under the same conditions as local investors, although the country's foreign investment statute subjects them to a 35 per cent tax on capital gains.

The Santiago stock exchange has 32 brokerage firms. Last year the share market reported a 61 per cent increase in turnover, while volume on the bond market rose by 29.7 per cent.

Mr Blanco said the exchange had recovered from the fallout of last October's slump. Nevertheless, as the country moves closer to what many political observers are predicting will be a final showdown between the 15-year-old military regime and its opponents in the plebiscite, political factors seem certain to continue to influence share prices.

AMERICA

Dow soars in wake of bond rally

Wall Street

A SUDDEN surge in the dollar in overseas trading set the stage for a substantial rally in the US bond market yesterday and equities followed bond prices higher, *writes Janet Bush in New York.*

US Treasuries had stood more than a full point higher in overseas markets and built on those gains at the New York opening. By late trading, prices were quoted as much as 1¾ point higher and the yield on the Treasury's 30-year long bond dropped to 8.93 per cent.

There were reports in Tokyo that at least one large institution had sold Japanese yen for dollars, funds which it intended to invest in US Treasuries.

The dollar rose steadily throughout the New York session and was quoted at its day's highs in late trading at Y128.85 and DM1.7810. The dollar's strength came despite reported intervention by the Bundesbank. The US currency was also quoted higher against sterling despite a round of half point base lending rate increases to 9 per cent. It was quoted at 1.7675 to the pound compared with $1.7870 earlier.

The surge in the bond market and the dollar gave a considerable boost to the equity market. The Dow Jones Industrial Average jumped more than 40 points within the first 20 minutes of trading and, at one point, rose to a gain of more than 50 points, so triggering the New York Stock Exchange's limits on stock index arbitrage through its systems. The Dow then slipped back to close 43.03 points higher at 2,152.20, its highest close since the October crash.

Volume was markedly higher than earlier this week with more than 200m shares traded, including some fairly hefty arbitrage between the cash and futures markets.

Although the dollar's strength was the major factor behind yesterday's rising markets, there was an additional boost from the release of US durable goods orders figures which showed a surprise drop of 2.2 per cent in May following a 1.8 per cent increase in April.

The news was particularly encouraging for the bond market since which saw in the figures signs that industrial output may start to slow down in the third quarter. However, economists also noted that, excluding orders for transportation equipment, particularly commercial aircraft, durable goods rose 0.6 per cent in May.

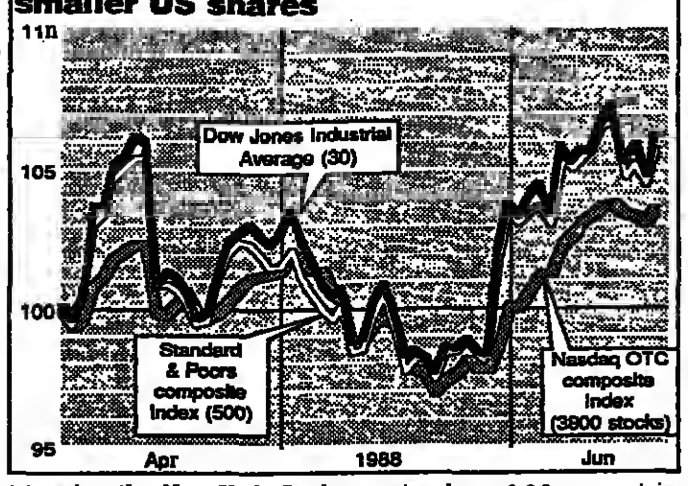
Bonds were also helped by an easier Fed Funds rate. The rate has traded above 7½ per cent all this week but, following a late decline on Tuesday, Fed Funds yesterday traded as low as 7¼ per cent. This tended to dampen some of the speculation that the US Federal Reserve is in the process of tightening monetary policy by another notch and is now targetting Fed Funds at 7½ per cent.

Both bond and equity traders reported some overseas buying although share dealers also said institutional activity was rather light. After the initial burst of buying, much of which was accounted for by stock index arbitrage as the S&P 500 futures contract rose to a premium of nearly five points over the cash market, the rally seemed to run out of steam.

Among featured stocks yesterday were Honeywall, which plunged $4 to $70⅝ after the company said its second quarter net income would be below $1.21 a share a year ago due partly to a charge for cost overruns totalling 53 cents a share.

Irving Bank fell $1 to $70⅝ after Bank of New York announced that Irving had rejected its improved takeover proposal and said that it would withdraw its offer at noon today if it had not been accepted by then. Bank of New York gained $⅝ to $33¾.

Relative performance of leading and smaller US shares



Canada

BROADLY rising base metal issues led Toronto share prices to a strong gain in heavy trading.

The composite index, which had risen about 32 points in earlier trading, gained 27 points to 3443.40 as advances outnumbered declines 420 to 386 on active turnover of 36.1m shares.

SOUTH AFRICA

GOLD shares closed little changed in Johannesburg in slow and uncertain trading in spite of the fall in the bullion price below $450. The weaker rand provided some support for gold stocks.

Many prices were unchanged, but Randfontein fell R3 to R253 while Freegold firmed 50 cents to R27.50 and Free State Consolidated Gold rose 50 cents to R27.50.

Mining financials and other mining issues were firm. Anglo American rose 65 cents to R49.65. Diamond share De Beers climbed 65 cents to R36.25 and Impala platinum climbed 75 cents to R27.75.

Those industrial leaders which saw active trading closed mostly unchanged.

EUROPE

Dollar's strength provides fillip as volumes increase

THE STRONG dollar, Wall Street's rally and corporate developments boosted buying in Europe yesterday, with turnover returning to more healthy levels, *writes Our Markets Staff.*

FRANKFURT continued its upward climb, rising more than 1 per cent after a similar hike on Tuesday, as foreign and domestic investors stepped up buying on the strength of the firmer dollar and a reassessment of the value of certain sectors.

The FAZ index put on 6.91 to 476.96 and turnover was again strong, in the DM3.5bn range.

Machinery and capital goods issues were in demand after a revaluation of their earnings potential following Tuesday's news of a sharp rise in foreign orders in the mechanical engineering industry in the first four months of this year. Mannesmann rose DM1.20 to DM158.50 and Linde found DM4.50 to DM689.

In chemicals, Bayer added DM5.70 to DM297.70 after forecasting record profits this year.

Bonds eased and the yield on the 6½ per cent 1998 bond rose to 6.63 per cent from 6.61 per cent.

PARIS got off to a firm start before the second bourse strike in three days caused dealing problems and a bomb scare forced the temporary evacuation of the premises.

The EFX 50 index showed a strong rise of 5.98 to 346.34. One securities house estimated volume at around FFr1.2bn, fairly healthy considering the obstacles to trading.

Both foreign and domestic interest was reported, with Wall Street's overnight strength and optimism over the domestic political situation both encouraging demand.

Moulinex jumped FFr8.70, or 11 per cent, to a 1988 high of FFr84.60 after the household electrical goods group said turnover should rise by more than 20 per cent this year.

Peugeot saw strong demand, rising FFr20 to close slightly off its day's high at FFr1,167, a new peak for the year. Lyonnaise des Eaux, which said it expected profits of FFr500m this year after FFr439m last year, added FFr13 to FFr1,329.

Cie du Midi shed FFr5 to FFr1,400 as its shareholders met to vote on the merger of its insurance interests with the Axa group.

MILAN saw strong overseas demand and finished higher, with gains fuelled in part by corporate developments and by the belief that the market is one of the cheapest in Europe.

The MIB index rose 5 to 1,042 on volume estimated at over L150bn worth of shares. Trading focused on Ferruzzi-Montedison and De Benedetti stocks.

Mr Carlo De Benedetti's holding company Cir closed up L207 at L5,662, weakened after hours on an unconfirmed Belgian press report that it planned to sell half its stake in Société Générale de Belgique to Britain's Mr Robert Maxwell, and then climbed back to L5,670.

Insurance group Generali fell L380 to L85,700 after losing a legal battle on its voting rights in France's Midi on Tuesday.

ZURICH got a boost from the firmer dollar and the overnight rise on Wall Street and stocks closed broadly higher. The Crédit Suisse index added 4.4 to 469.

News from Ciba-Geigy that it is starting tests on an AIDS vaccine took the chemicals sector higher, with Ciba-Geigy bearers gaining SFr95 to SFr3,395 and Hoffmann-La Roche baby certificates rising SFr325 to SFr11,975, helped also by export prospects on the stronger dollar.

A revision of the earnings potential of issues in the construction, engineering and capital goods sectors led to gains. Oerlikon Bührle bearers added SFr25 to SFr1,145, Holderbank SFr275 to SFr5,280 and Georg Fischer put on SFr55 to SFr1,080.

AMSTERDAM was buoyed by the dollar's rise to a new 1988 record fixing of Fl 1.9950 and Wall Street's strong opening. The all-share trend index added 1.7 to 91.5 in moderate trading.

Ahold, the retail group, announced an 8.5 per cent rise in first quarter profits to Fl 38.3m from Fl 35.3m in the same period a year ago. Its share price responded with a 50 cent rise to Fl 80, after being suspended briefly for the announcement.

BRUSSELS remained firm in fairly active trading, with interest again focusing on oil group Petrofina, up BFr575 at BFr13,200, amid continued rumours of stake-building. Petrofina warrants rose BFr120 to BFr4,500.

Utility stocks continued to make up lost ground, with Unerg up BFr20 at BFr2,620.

STOCKHOLM took encouragement from the stronger dollar and closed higher in moderate trading. The Affärsvärlden general index rose 5.1 to 860.1 and turnover reached about SKr237m.

Free B-shares in Saab-Scania fell by SKr3 to SKr199. The company reported a 36 per cent drop in four-month profits.

OSLO rose across the board, helped by demand for blue chips and gains in New York. The all-share index rose 4.13 to 294.46 in moderate trading worth NKr131.9m. Norsk Hydro rose NKr7.50 to NKr217.

London

INTERNATIONAL issues found favour as the dollar strengthened and Wall Street opened well ahead. A ½ point rise in UK interest rates was discounted and the FT-SE 100 index closed up 19.2 at 1,879.3.

BP weakened on fears that the Kuwait Investment Office would reduce its 22 per cent stake because of anti-monopoly pressures in the UK.

ASIA

Fears over falling yen wipe out early gains on Nikkei

Tokyo

LATE selling eroded large early gains in Tokyo yesterday and share prices closed lower for the third consecutive day, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average ended 64.79 lower at 27,860.78 after moving between a high for the day of 28,199.96 and a low of 27,833.49. Volume was 1.25bn shares compared with Tuesday's 1.17bn.

The market made a firm start, bolstered by Wall Street's overnight rally. Later, however, the dollar's rise raised fears of higher import costs and higher interest rates and together these pulled the market down sharply.

Investors were eager to lighten positions, detecting similarities with the climate in the market just before the October crash.

Toray Industries, the leading synthetic fibre manufacturer, topped the active list with 72.62m shares traded on its good business results. It ended Y9 lower at Y956 after briefly advancing Y24.

Large-capital steels and shipbuildings also opened higher and then came under small-lot selling pressure. Nippon Steel, the second busiest issue with 58.27m shares changing hands, closed Y8 lower at Y546.

Kawasaki Steel, the third most active stock with 46.24m shares traded, fell Y14 to Y563. NKK and Sumitomo Metal Industries lost Y14 to Y531 and Y11 to Y503.

High-technology stocks found demand amid expectations that the yen's decline against the dollar would help improve their export profitability. NEC added Y40 to Y2,100, Matsushita Electric Industrial Y30 to Y2,510, Kyocera Y100 to Y5,440 and Hitachi Y20 to Y1,400.

Bond prices plunged on heavy selling by dealers, triggered by the yen's decline.

The market made a good start, continuing Tuesday's firm undertone. But the yen's weakness and rises in the certificate of deposit rate prompted selling.

The yield on the benchmark 5.0 per cent government bond, maturing in December 1997, fell to 4.715 per cent in early trading from 4.745 per cent at Tuesday's close. But it then rose sharply, ending at 4.830 per cent.

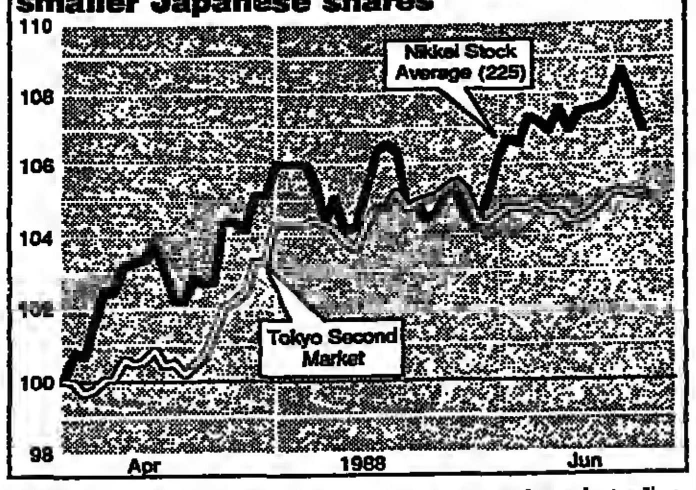
Many dealers kept a close eye on the Bank of Japan's stance towards the short-term money market.

Osaka Securities Exchange prices rebounded slightly, although profit-taking depressed leading issues.

The 250-issue OSE stock average closed 22.64 points higher at 28,055.21 on an estimated volume of 113m shares, up 1.9m shares from the previous day.

Namura Shipbuilding scored a maximum allowable single-day gain of Y80 to Y480, while Nikko Co, the civil engineering and construction plant manufacturer, jumped Y83 to Y980. Osaka Titanium finished Y110 lower at Y2,010.

Relative performance of leading and smaller Japanese shares



Hong Kong

LATE profit-taking cut into the session's gains but shares closed higher, with the Hang Seng index rising 20.09 to 2,703.74.

Interest rate worries were set aside and investors took their cue from Wall Street, which rallied overnight. Activity increased, with turnover reaching HK$1.5bn against HK$1.3bn on Tuesday.

Tomei Industrial was again the most active issue on its second day of trading with HK$46.4m worth of shares dealt, rising 10 cents to HK$1.61.

Wharf and World International each found 5 cents to HK$7.90 and HK$3.65 respectively after news, announced after the market closed on Tuesday, of their purchase of US-based Omni Hotels.

Asia Commercial rose 11 cents to HK$1.45 after announcing a final dividend of 7 cents and a one-for-four bonus issue.

Singapore

BARGAIN hunters helped take equities higher in active trading, with sporadic profit-taking well absorbed. The Straits Times industrial index resumed its upward climb after a one-day fall, adding 13.92 to 1,071.99 on turnover of 61.3m shares, well up on Tuesday's 47m.

Activity focused on Malaysian speculative issues and plantation stocks, which have been benefiting from firm palm oil prices.

Sime Darby saw 3.4m shares traded, closing unchanged at S$3.26.

Australia

AFTERNOON demand for resource stocks gave a lift to the market, although profit-taking depressed gains, and the All Ordinaries index added 10.9 to 1,612.8.

Sugar producer CSR rose 10 cents to A$4.80 on turnover of 9.9m shares. CRA, which is merging its metal operations with North Broken Hill, rose 20 cents to A$9.40 and NBH eased 2 cents to A$3.48.

Bundaberg was unchanged at A$3.30, on turnover of 9.2m shares thought to be accounted for by Industrial Equity reducing its stake. Industrial Equity slipped 2 cents to A$1.82.

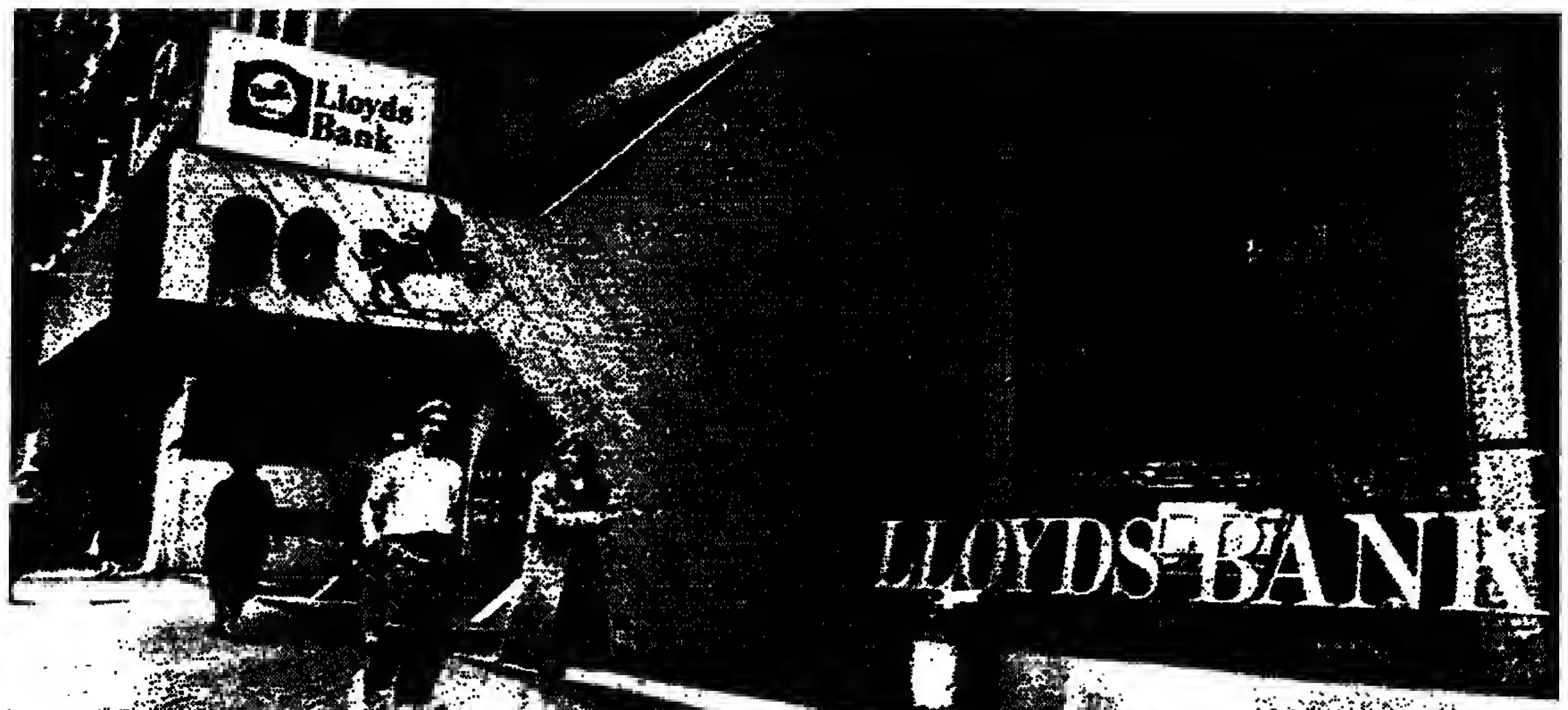
FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY JUNE 22 1988					TUESDAY JUNE 21 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (88)	149.09	−0.2	124.98	121.12	3.69	149.34	124.01	120.64	150.35	91.16	132.11
Austria (16)	85.64	−1.3	71.79	79.03	2.60	86.75	72.03	79.22	98.18	84.35	86.49
Belgium (63)	120.73	−1.0	101.21	111.35	4.51	121.89	101.21	111.22	139.89	99.14	119.04
Canada (125)	127.52	+0.8	106.90	111.73	3.01	126.53	105.06	110.68	127.52	107.06	126.58
Denmark (39)	129.31	−0.2	108.40	118.80	2.45	129.59	107.61	117.87	132.72	111.42	119.80
Finland (25)	135.82	−1.8	113.86	119.46	1.76	138.31	114.84	120.69	139.53	106.78	—
France (127)	95.70	+0.7	80.23	89.85	3.61	95.08	78.95	88.44	99.62	72.77	106.00
West Germany (99)	76.77	+0.2	64.36	71.00	2.61	76.64	63.64	70.03	80.79	67.78	95.73
Hong Kong (46)	108.80	+0.9	91.21	108.97	4.20	107.78	89.50	107.94	109.20	84.90	125.92
Ireland (18)	137.97	−0.3	115.66	128.45	3.69	138.37	114.90	127.60	141.54	104.60	129.82
Italy (102)	72.16	−0.6	60.49	71.02	2.83	72.61	60.29	70.71	81.74	62.99	99.94
Japan (456)	167.58	−1.9	140.49	136.28	0.53	170.90	141.90	136.60	177.27	133.61	147.55
Malaysia (36)	150.64	+1.5	126.28	149.77	2.43	148.39	123.22	147.31	150.64	107.83	170.29
Mexico (14)	179.15	−0.5	150.19	447.58	1.12	180.07	149.52	450.65	180.07	90.07	254.97
Netherland (38)	106.06	+0.3	88.92	96.89	4.77	105.74	87.80	95.44	110.66	95.23	120.88
New Zealand (21)	82.92	+0.8	69.51	61.35	5.97	82.30	68.34	60.69	84.05	64.42	98.11
Norway (25)	126.04	+1.3	105.66	109.74	2.75	124.37	103.27	107.53	132.23	98.55	138.28
Singapore (26)	121.39	+1.0	101.77	113.78	2.21	120.25	99.83	112.44	123.33	97.99	144.97
South Africa (60)	128.02	−0.5	107.32	85.71	5.13	128.69	106.85	85.11	139.07	118.16	156.93
Spain (42)	157.08	−1.4	131.69	139.89	3.10	159.27	132.25	140.08	164.47	130.73	121.09
Sweden (35)	120.12	−0.4	100.70	109.32	2.61	120.56	100.11	108.78	125.50	96.92	114.17
Switzerland (55)	81.59	+0.4	68.40	74.54	2.29	81.27	67.49	73.69	86.75	75.60	97.80
United Kingdom (327)	137.96	+0.0	115.66	115.66	4.27	137.91	114.51	114.51	141.18	123.09	150.06
USA (578)	112.27	+1.5	94.12	112.27	3.49	110.65	91.88	110.65	112.27	99.19	125.55
Europe (1011)	109.06	+0.0	91.43	96.63	3.71	109.07	90.57	95.67	110.82	97.01	121.75
Pacific Basin (673)	164.49	−1.8	137.90	134.41	0.72	167.53	139.11	134.65	172.26	130.81	146.06
Euro-Pacific (1684)	142.34	−1.3	119.33	119.33	1.65	144.16	119.70	119.11	147.53	120.36	136.38
North America (703)	113.08	+1.4	94.80	112.25	3.46	111.50	92.58	110.67	113.08	99.78	125.60
Europe Ex UK (684)	91.13	−0.1	76.40	84.74	3.20	91.18	75.72	83.88	92.99	80.27	104.18
Pacific Ex. Japan (217)	127.35	+0.3	106.76	111.02	3.87	126.96	105.42	110.27	128.15	87.51	128.01
World Ex. US (1883)	141.72	−1.2	118.81	118.87	1.72	143.42	119.09	118.62	146.49	120.26	136.32
World Ex. UK (2134)	129.56	−0.4	108.62	116.64	2.09	130.06	107.99	115.98	131.77	111.77	130.34
World Ex. So. Af (2401)	130.31	−0.3	109.24	116.76	2.28	130.75	108.57	116.05	132.39	113.26	131.93
World Ex. Japan (2005)	112.43	+0.8	94.25	106.61	3.58	111.49	92.57	105.30	112.43	100.00	124.76
The World Index (2461)	130.30	−0.3	109.23	116.54	2.30	130.74	108.56	115.83	132.38	113.37	132.09

Base values. Dec 31 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

SECTION IV
FINANCIAL TIMES
SURVEY



SPAIN

BANKING AND FINANCE

CONTENTS

Major bank mergers and the increased involvement of foreign banks are among the symptoms of radical change now being imposed upon Spanish banking and finance by the need to modernise before European Community opens up in 1992. **Peter Bruce**, Madrid Correspondent, reports

New rules and no escape

PROBABLY THE only institution destined to escape, untouched, the wholesale reformation being imposed on Spanish business and financial life by the the need to modernise before European Community markets open up in 1992 is lunch.

This normally starts at 2.30pm and ends at anything between two and three hours later. In spite of everything, the global market, integration into the EC, Spanisb lunch bours have not budged an inch. Defenders of the break (there *are* no serious Spanisb critics) argue that this is when the real business of the day is dona bnt foreigners should take this with a pinch of salt. One leading Spanish banker spends many of his lnnches with his press spokesman.

One tba face of it though, everything else has changed. After a spate of mergers the Big Seven private banks have, or are about to become, the Big Five. Banco Bilbao and Banco Viscaya, tbe two Basqne banks, announced their merger in January after Bilbao had failed to take over the country's second largest bank, Banco Espanol de Credito (Banesto).

Just a few months later, and after weeks of wounded denials, Banesto and the biggest of them all, Banco Central, agreed to merge, leaving Banco Santander pursuing its independent course of buying control of small banks outside Spain and Banco Hispano Americano and Banco Popular without anything grander to do than to continue living off the big domestic interest rate margins that Spanish banks have become famous for.

In three years the chief executive or chairmanship has changed hand at six of the biggest banks and a host of new names now dominate Madrid newspaper headlines. Mr Mario Conde, 39, became chairman of Banesto last year after selling his pharmaceuticals company (with a friend) and becoming Banesto's biggest shareholder with the proceeds. Alberto Alcocer, 45, and his cousin Alberto Cortina, 42, control the country's top mid-sized bank, Banco Zaragozano and are now bidding to gain control of Banco Central or, if not, of enough of Banesto to win at least 10 per cent of the merged unit. They are not welcome but they don't care.

Old rules are being reshaped. Mr Conde says that as far as he is concerned, the Bibao bid for Banesto late last year "broke the biggest rule" and "if you can break the big rules you can break the little rules." He has begun to poach desperately-needed new management for Banesto from his rival bankers.

Supporters of these mergers argue that they have become necessary if Spain is to have any banks capable of competing in Europe after 1992. But size, they concede, is not everything. The competitiveness of all Spanish commercial banks is still questionable. They are massively overstaffed, have more branches per head of population than any of their European counterparts and for decades have disguised these inefficiencies by bngely overpricing their services to their customers. A recent EC report on post-1992 economics suggested that if ever the costs of financial services in the Community were to be equalised, the Spanish would have to make the deepest cuts of all – 34 per cent in comparison to just 24 per cent for the French and 13 per cent in Britain.

At the top, the herd mentality still rules. Although the state no longer dictates lending rate levels, none of the big banks dares break ranks and the reaction to the success of innovative foreign banks, after they were allowed to make domestic loans in 1978, has been less than courageous. The Government is not allowing new foreign banks into Spain until the EC laws after 1992 force them to. And Spanish bankers, terrified at the rapid inroads that foreign banks have already made, have agreed among themselves not to sell any branches (no matter bow costly, remota and unprofitable they may be) to foreigners.

Some foreign banks, like Citibank and Barclays, have been able, througb acquisition, to establish important branch networks in Spain and might be buyers of branches, if ever they came onto the market. Bnt, notes a recent report by the flourishing Madrid financial analysts, Research Associates, for foreign banks "the only alternative against a (declining, limited) retail operation now is the development of investment bank units".

The opportunities, note Research Associates, lie in areas and prodncts that the foreign banks, in many cases, were responsible for actually creating. Where Spanish banks had grown fat on borrowing cheaply from their customers, the foreigners have been forced to go to (if not quite create) the money market. Citibank introdnced revolving credits to Spain, Chase Manhattan placed one of the first syndicated loans in Spain and Bank of America can be thanked, primarily, for today's commercial paper market.

Many of these products are old and the Spanish banks have caught onto them. But, the report goes on, "there are many niches waiting tc be filled out... Bankers Trust is committing itself to leveraged buy-onts (and since March 1987) has already closed three deals and is acknowledged as a market leader ... as of February 1988 Bank of America had 11 mergers and acquisition mandates and was actively pursuing five others ... JP Morgan, along with Hispano Americano, had already underwritten the only three europeseta bond facilities ever launched".

Although the big Spanish banks have responded by entering investment banking as well, only Banco Santander's effort, Banco Santander de Negocios, has really begun to stand out.

Ironically, the mergers between the big banks have brought in even more American competitors, with Shearson Lehman advising Banco Hispano Americano how to behave, Goldman Sachs advising Banesto, and Salomon Brothers advising the thrusting cousins, Messers Alcocer and Cortina.

If the threat to the Spanish majors from foreign banks were not enongh, the country's savings banks are also becoming increasingly aggressive. in just 10 years, the savings banks have raised tbeir sbare of total national deposits from a third to nearly 45 per cent and that has been done despite severe restrictions. The Government is finally about to scrap rules that restrict savings banks to well defined regions. This will mean they would be able to open up branches anywhere from 1992.

For an operation like the Caja de Pensiones para la Vejez y de Ahorros de Catalunya y Baleares (La Caixa), the Barcelona-based savings bank which, measured in terms of deposits, is the country's biggest financial institution, the result of the relaxation of this barrier will be dramatic.At present, it is allowed to operate only five branches in Madrid (the name "Caixa" appears all over the city but its other branches are not allowed to do savings business and thrive, instead, on life insurance and other financial services) and, says its chief executive. Mr Josep Vilarasau, "we would like to have 300". He could afford it, too.

All around the country, much smaller savings banks are beginning to look for ways to merge and strengthen themselves ahead of 1992. It is difficult, as the savings bank boards have, by law, to reflect local political interests. But when the Government does lift the geographical restrictions, they will be highly vulnerable to attack from La Caixa or the Caja de Madrid.

If the Government is to be faulted for not letting the savings banks loose sooner, its prime mitigating factor is probably time. Mnch of the past year or so has been taken np pntting together a thorough-going reform of the country's four bourses, a task so huge that the small but talented team drafting the new laws at the Finance Ministry have probably had little time to devote to much else.

The stock markets are going to be robbed of their old Napoleonic code of ethics and practise and presented with a model closely resembling London's or New York's. Powerful *Agentes de Cambio y Bolsa*, or stockbrokers, have had a 157-year monopoly on all equity transactions and that is about to end. Essentially civil servants (they take civil service exams, perform essentially bureaucratic functions but earn up to $1m a year), the *Agentes* will either have to retire or join new dealing or brokerage bouses.

Many have already begun to establish, in partnership with colleagues and outside specialists, new companies such as Asesores Bursatiles or Iberagentes or F&G Inversiones Bursatiles that will eventually become players on the bonrses. Under the *Ley de Reforma del Mercado de Valores*, the Securities Market Reform Act, which still has to be passed by Parliament, the players will be either *Sociedades de Valores(SV)* who will deal in shares and *Agencias de Valores*(AV), which will only be brokers to third parties. SVs will be able to deal on their on behalf. To allow the *Agentes* time to prepare for the tidal wave sweeping towards them, both SVs and AVs will need to have at least 70 per cent of their capital held by *Agentes* until 1989. From 1992 all restrictions on ownership disappear. Does the Government pay any attention to the howls of complaint from the *Agentes?* "Not for a moment," says Mr Guillermo de la Dehesa, the secretary of state for economic planning.

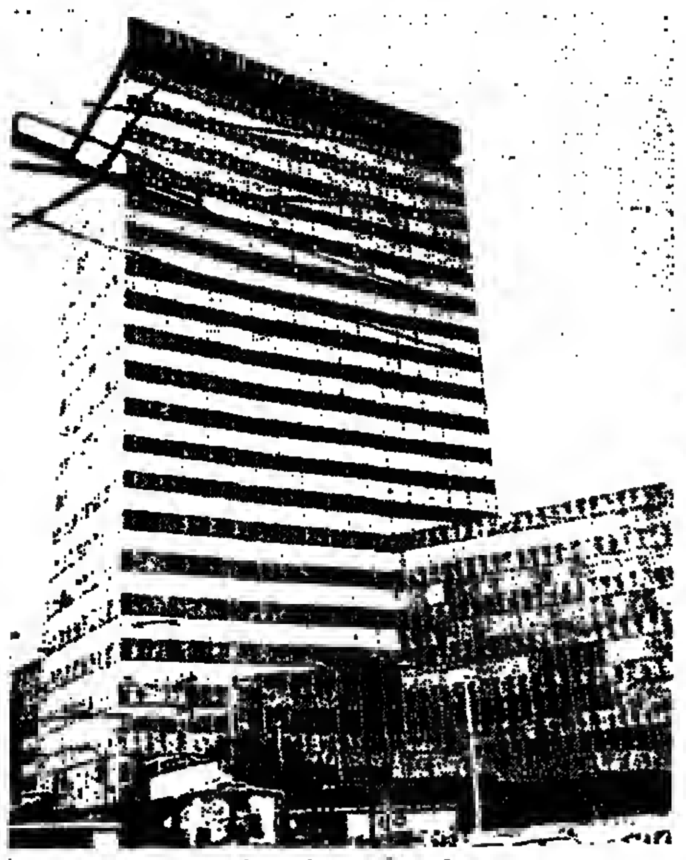
The Finance and Económic Ministry, in fact, has probably had more than an intellectual role in transforming Spain's capital markets. Analysts argue that, since the Socialists took power in

Continued on page 3

SPANISH BANKING 2

Historic mergers among the country's 'Big Seven' private banks have produced a surfeit of surprises

'. . . . it is the unexpected that occurs'



1 plus 1 equals 1: the Bilbao headquarters of Banco de Vizcaya (above, left) and Banco de Bilbao (left) — now merging as Banco Bilbao Vizcaya

MR MARIO Conde, the chairman of Banco Español de Credito, managed to look serious as he informed an international seminar recently that "as Keynes said, 'the inevitable seldom happens, it is the unexpected that occurs'." He would have been forgiven had he smirked his way through the quote.

Inevitability has been in short supply in Spanish banking over the past months and there has been a surfeit of surprises: it is Mr Conde, almost as if he were determined to verify the Keynes dictum, who has done as much and more than anyone to bring the unexpected situation about.

The "Big Seven" private banks had looked as if they were there to stay. Then, last autumn, when talk began of mergers, marriage brokers created alliances that had the stamp of logic to them for small, efficient banks were to wed what the banking world rudely called the "elephants".

Now that mergers have taken place they are quite the opposite to ones that had been expected. Mr Conde, a bank chairman as of last December and the *primum inter pares* of the sector as of last month, has been creating virtually all the twists and turns starting with the major one which is that he himself was not even a bank shareholder this time last year. Entering as an outsider to the banking community, he fought off Banco de Bilbao's bid for Banesto, the one which had the seal of inevitability and he forged the merger with Banco Central, the one that seemed least plausible.

The Big Seven line-up has, in the first six months of this year, undergone more changes than it has for 60 years. First there were seven and now there are five: first Central was the leader of the pecking order, then it was Banco Bilbao Vizcaya (BBV) and now it is Banco Español Central de Credito (BECC).

One underlining irony is that last autumn those who had thought through the merger process, not least among them the Government and the monetary authorities, had slated Vizcaya to wed Central and Bilbao to join forces with Banesto.

A second irony is that Central's chairman Mr Alfonso Escamez and Banesto's Mr Conde, the two who had raised their voices longest and loudest against mergers, should have opted to come together.

It is said that the dashing 39-year-old Mr Conde won over Mr Escamez, who is 72, by making a quick trip down to Alicante to visit Mr Escamez's ailing mother and present her with flowers. Pundits are less clear as to why Mr Conde, who had spent months calling for "a lot of time" for studies to examine potential synergies in depth, should have so rapidly decided to touch the soft, sentimental core of the crusty central chairman.

A third irony, and a consequence of the earlier ones, is that the merger process, intended as a rational strategy to streamline Spanish banking ahead of 1992, has unleashed a long and extremely costly process which has, in certain senses, a dual seal of impetuousness and improvisation.

The twists are, in any case, not yet over for Cartera Central, a joint venture share portfolio company owned by the construction entrepreneurs Alberto Cortina and Alberto Alcocer and by the Kuwait Investment Office, is now buying strongly into Banesto.

The irony here is that Cartera Central, which owns 13 per cent of Central's stock and is, by far, its largest equity holder, was considered hostile by Mr Escamez to the point that, according to some analysts, Central's embattled chairman sought out Mr Conde to protect himself from their raids.

BANK DEPOSITS

Bank	Pta bn
La Caixa	2,041
Banco Central	2,001
Banesto	1,953
Banco de Bilbao	1,615
Banco Hispano Americano	1,560
Banco de Santander	1,345
Caja de Madrid	1,194
Banco de Vizcaya	1,023
Banco Popular	856
Caja de Barcelona	653

Source: Individual bank statements as at 31.1.88

Now Banesto's chairman is facing the same pressure Mr Escamez wanted to avoid but the implications are much greater for Mr Cortina and Mr Alcocer, better known as "los Albertos", have made it clear that their intention is to control the BECC.

None of this extremely fluid situation could have been foreseen by Banco de Bilbao's chairman Mr Jose Angel Sánchez Asiain when he made his bid for Banesto at the end of last year and unwittingly brought Mr Conde to the forefront.

The most thoughtful of all the bank chairmen on the question of mergers and also the only one to make his ideas public, Mr Sánchez Asiain understood that, among many other synergies, Bilbao's international network, which is small by European standards but the pack leader in the Spanish context, complemented Banesto's deep penetration of the Spanish domestic markets.

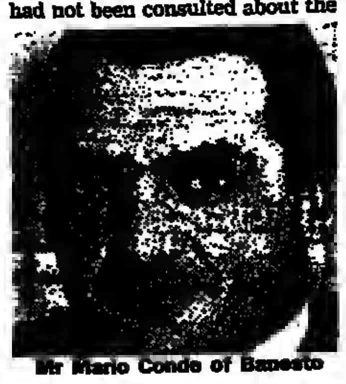
Something similar, wedding professionalism to size, was behind the approach that Vizcaya's chairman, Mr Pedro de Toledo, was making early last autumn to Central's Mr Escamez. Also an ideas man and far seeing, Mr de Toledo was more cautious. He quickly grasped Mr Escamez's hands-off message and prudently withdrew leaving his Basque colleague to breach the walls of tradition with the takeover attempt on Banesto.

In the process Mr de Toledo discovered some nasty surprises in his own back yard. The paper manufacturer Torras Hostench, which is KIO's main investment arm in Spain and is the nominal co-partner in Cartera Central's venture with "los Albertos", had quietly bought up five per cent of Vizcaya's stocks.

It appears that KIO had wind of Vizcaya's discreet overtures to Central, a bank which was already in its acquisitive sights, and wanted a top table seat in any resultant merger. Mr de Toledo managed to buy back from Torras, presenting KIO with a considerable quick profit in the process, only after the Government's economic team signalled to the Kuwaitis that they did not care very much for their raid on the Basque bank.

What Mr Sánchez Asiain had done with his public share offering for Banesto was to break the rules of the game that had existed down through generations as the presidencies of the big seven passed from insider to insider and even from father to son.

Once broken it is hard for the rules to be re-established. Thus "los Albertos" and Torras Hostench/KIO in Cartera Central have now no constraints as they attempt to burrow their way into Banesto. The portfolio company issued a sour statement saying it had not been consulted about the Central-Banesto merger and then it set about buying Banesto stock without bothering to inform Mr Conde.



Mr Mario Conde of Banesto

By the same token, a public plea by Mr Conde that no Spanish bank should sell off its branches to foreign institutions falls on deaf ears. It is particularly because the mergers that have taken place are precisely the ones that were not inevitable, that bank buildings will almost certainly have to be sold off to the highest bidder.

Bilbao and Vizcaya, which have about 2,400 branches between them, do not need to be cheek by jowl in every Basque village high street and much the same, whatever Mr Conde says at present, can be said for Central and Banesto, which have between them a staggering 4,400 odd branches throughout the length and breadth of Spain.

For the present, all four banks will have their work cut out trying to turn themselves into two. The difficulties look more acute in the case of Banesto and Central, and the three-year schedule that Mr Escamez and Mr Conde have set themselves to create the BECC appears decidedly ambitious.

In some ways the Cinderella of the whole merger party is Banco Hispano Americano which, after a creditable return to profitability, was half-heartedly courted in turn by Central and by Banesto and then spurned without ceremony.

Curiously, it is Hispano of all the big Spanish banks which knows most about mergers because it took on the biggest when it absorbed the ailing Banco Urquijo six years ago. The experience was an agonising one and Hispano has only recently recovered from it.

It is because of this that Hispano has barely concealed its delight at being left alone. They are now embarking on a major strategic plan knowing that four of their competitors will be spending vast amounts of time, energy and cash turning themselves into two.

Banco Popular, the smallest of the Big Seven and also one of the best managed and profitable, is likewise preaching that small is beautiful. Banco Santander, a somewhat different case because it is closely identified with the Botin family, is not averse to joint ventures in Europe but is also on the sidelines watching the progress of domestic mergers.

Tom Burns

Mr Pedro de Toledo of Banco de Vizcaya

Mr Jose Angel Sanchez Asiain of Banco de Bilbao

The Bilbao-Vizcaya merger

The Basque connection

IT IS essential to book to be sure of a seat on the early morning and the late evening flights between Bilbao and Madrid. The chances are that your neighbours on the 50-minute trip will be executives from the Banco de Bilbao or the Banco de Vizcaya for they live within a foot in each of the two cities and ensure the profitability of the air route that links them.

The top people in Bilbao and Vizcaya have offices in both the Basque city and in the Spanish capital and, even if most of their business is in Madrid, the hearts of nearly all of them is firmly in Bilbao.

When either bank wants to roll out the red carpet, it invites its guests to gargantuan meals in scenic country houses hidden away among Basque valleys and forests and it entertains them with demonstrations of the area's authentic folk dancing tradition.

What distinguishes the two banks from others in Spain and what has positively aided their merger process is that they share a Basque background in general, a Bilbao culture in particular and, very specifically, the ethos of their joint *alma mater*, Bilbao's Jesuit-run University of Deusto Business School.

Some 50 per cent of the middle and senior management at the two banks, including the two chairman, Mr Jose Angel Sanchez Asiain and Mr Pedro de Toledo, have passed through Deusto's lecture halls. Mr Sanchez Asiain and Mr de Toledo were both, also, on the Deusto faculty staff before turning to banking. It is not essential to be Bilbao-born and Deusto-bred to get on at either of the two banks but it is quite clearly a plus.

Deusto boasts that it is more interested in training business executives than business theorists and that it wants its pupils to identify markets and to evolve products that will sell in them. Absorbing, as they do, so many of the university's star pupils, the two banks have as an article of faith that they are offering good banking services to a national market but both are loath to lose their Basque identity.

It is the pronounced "Basqueness" of the Bilbao-Vizcaya merger that has prompted arched eyebrows in Madrid. Lunchtime gossips have it that "everyone", from the Economy Ministry downwards, is interested in having two big Madrid banks join forces in order to provide a counterweight to a possible shift in financial decision making from the capital city to Bilbao.

The fears are almost certainly misplaced. Put crudely Bilbao and Vizcaya, together or individually, are much more important to Bilbao than their home town is to them. The Basque Country provides only some 15 per cent of their business, less than do other areas of Spain such as Andalucia, and certainly less than Madrid.

The opposite is more likely to be true in as far as the top management of the unified Banco de Bilbao-Vizcaya will find themselves spending more time in the capital and taking fewer flights to Bilbao. The facilities in the Basque Country, with all their sentimental associations, will however doubtless remain in place and Deusto will continue to be a recruiting ground.

Tom Burns

Provincial savings banks

Gearing up to compete on an equal footing

MUCH OF life in Burgos, the most typically Castillian of Spain's provincial capitals, revolves around the city's two savings banks. Caja de Ahorros Municipal de Burgos and Caja de Ahorros y Monte de Piedad Circulo Catolico Obrero de Burgos.

Besides playing a leading role in Burgos' economy, these two medium-sized "cajas" sponsor cultural events, grant scholarships, provide cheap housing, organize holiday trips and, because the church and the city hall are two of their biggest shareholders, participate actively in the city's political and religious activities.

Once charitable institutions that catered to the poor, Spanish savings banks such as El Circulo and La Caja de Burgos have developed deep roots in their home provinces that guarantee them a stable market. Now they are taking advantage of soaring profits to expand their activities and compete directly with commercial banks.

Operating costs are high, primarily because cajas maintain branches throughout sparsely populated rural areas. But by being the first to introduce electronic banking on a large scale, savings banks have reduced costs and strengthened their balance sheets in recent years.

Total pretax profit for the 77 cajas grouped in the Confederation of Spanish Savings Banks (CECA) surged 55 per cent last year, to Pta155bn.

With the magical date of 1992 right around the corner, Spanish savings banks are now gearing themselves up for heightened competition. In addition they are pressing the Government to remove the last remaining limitations on their activities in order to compete with commercial banks on an equal footing.

In 1977 the Government eased restrictions to allow the cajas to compete with commercial banks for the first time ever. But the number of branch offices the cajas can open outside their home provinces is still restricted.

The larger cajas have prepared for a further change in legislation by opening "windows" that offer quasi-banking services in areas where they are barred from taking deposits. These windows will become full branches when current geographical restrictions are lifted.

Attempts to expand are also hamstrung by the lack of capital. Because the cajas are foundations they cannot issue equity. Instead, they finance expansion out of profits. But legislation currently winding through parliament would allow the cajas to increase capital through issues of "participative quotas", which are non-voting shares that pay a dividend.

Despite these limitations, the cajas have steadily increased their share of all Spanish deposits, from about 30 per cent in 1978 to almost 43 per cent today, and have entered new businesses such as insurance.

The strategy that each caja adopts for the challenges of 1992 is likely to be linked to its size. According to a recent CECA report, Spain's 19 medium-sized savings banks, which account for 20 per cent of total assets in the sector, consistently outperform the other 16 large and 42 small cajas by posting higher profits and lower costs.

In terms of profit per employee, the Caja de Burgos, number 30 in Spain by deposits, is ranked first, while the Circulo de Burgos, number 39 by deposits, is ranked second.

Spain's largest savings bank, La Caja de Pensiones Para la Vejez y de Ahorros de Catalunya y Baleares, or La Caixa, bucked the trend towards bank mergers by agreeing in May to acquire two small French banks as the first step towards building up a presence abroad before 1993. Last year, it took over the Caja Rural de Talavera and, in conjunction with the Caja de Madrid, absorbed the Caja Rural de Cantabria and the Caja Rural de Palencia.

La Caixa is Spain's largest institution by deposits after the two newly-formed banking giants, Banco Espanol Central de Credito and Banco Bilbao-Vizcaya. With deposits of Pta 2.041trillion(million million) La Caixa outranked all the Spanish commercial banks before merger fever swept the sector earlier this year.

Other large savings banks are expected to seek foreign links and to snap up ailing rural cooperatives, known as cajas rurales.

Smaller cajas, encouraged by the Government, are sounding each other out about possible mergers. The cajas of Alicante and Murcia recently merged into the Caja de Mediterraneo, and the six savings banks in the Basque country are discussing doing the same.

CECA believes that mid-size banks could gain economies of scale without becoming an unwieldy size by pooling their resources. The confederation has acted for 60 years as a clearing bank for its member's foreign operations. It also set up an electronic banking network among its members that allows it to carry out group services, thereby reducing the cajas' operating costs.

A group of 17 cajas recently launched Ahorrogestion, a company that manages investment funds and insurance policies for its member institutions, as well as other services that complement those offered by CECA.

Fully convinced that retail banking is their market niche, savings banks have been opening branch offices and hiring new employees. Between 1984 and 1987, the number of caja branches in Spain, including those of the state-owned caja postal, increased by 1,286 to 13,400 and the number of employees rose by more than 6,000, to 70,200. In the same period, commercial banks maintained 16,500 branches but shed 12,688 jobs, leaving their labour force at 157,595.

Louise Santos

SPANISH BANKING 3

Profile: Mr Mariano Rubio, Governor of the Bank of Spain

Spain's disciple of the DM zone

PROBABLY NOWHERE else in Europe is the chairman of the central bank such a household name as is Mr Mariano Rubio's, the Governor of the Bank of Spain.

In part, the general fascination with Mr Rubio has to do with the manner in which his haughty, academic demeanour stands out in a society that laughs easily and acts on impulses. In part, too, it reflects the general awe that surrounds his job. In a nation long used to bureaucracy and obsessed with the civil service, the *Gobernador del Banco de Espana* is a pro-consul who is close to having ministerial rank.

There are, however, specific reasons why Mr Rnbio has remained in the public eya during his tenure of office and that accounts for the interest aroused by his possibla reappointment when his five-yaar mandate expires in July.

Looking backwards, there is the perception that he has been more responsible than anyone for imposing and implamenting strict monetarist orthodoxy at a time when a Socialist Government held an unassailable majority in parliament.

Taking the immediate present, in the midst of the current fluid situation of the private banking sector, there is heightened interest over the role that the Bank of Spain can and is playing in the reorganisation of Spain's financial system.

Looking forwards, there is the belief that another five years of Mr Rubio will have Spain sooner rather than later entrenched in the European Monetary System.

When Mr Rubio delivered a lecture earlier this year at the prestigious Madrid Debating Forum, the audience included the entire banking establishment and all the upper echelons of the Spanish Treasury and Economy Ministries. What they heard was an exhaustive exposée of why the peseta should come under the *discipline of the DM zone.*

It was not immediately obvious whether Mr Rubio was taking an initiative of his own, something that given the power attached to the Bank of Spain governorship and his own personality, he was quite capable of doing, or whether he was launching a trial balloon on behalf of the Government.

The issue soon ceased to matter since it became increasingly apparent in the succeeding weeks that the Prime Minister and the Cabinet had taken the idea of EMS membership aboard. Officials have ceased to talk about tha virtues of the system for Spain and now refer to the timing of when Spain should join.

What was interesting was the manner in which the Governor of the Bank of Spain adopted a platform that had little to do with immediate currency and economic considerations and which in contrast rested almost entirely on considerations that more properly belong to politicians.

Thus he laboured tha point that if Spain wished to "participate fully in the process of Community integration, in the formation and development of a great EC interior market, then we will also have to fully incorporate ourselves to the system of progressive monetary integration."

Oddly, for a member of governors of national banks elite, Mr Rubio chastised his peers at the Bundesbank for their original reticence to the EMS initiative and praised the vision of Mr Helmut Schmidt and Valery Giscard d'Estaing who had shown that "the construction of Europe can only come from a political leadership that goes beyond the technical difficulties in which national bureaucracies often lose themselves."

The Bank of Spain governor took a broadbrush view of contemporary domestic economic development. In the shorthand adopted by politicians, he argued the conventional theory that in the post-war period the Spanish economy had always responded well to external stimuli and had progressively benefitted from an ever closer relationship with Europe.

The bottom line of the thesis is that the loss of liberty over the domestic political economy implied in integration is more than counterbalanced by the consequent development of the economy. Mr Rubio wholesomely subscribed to this conclusion: "the Spanish economy has shown its greatest dynamism precisely at those times when the political economy has been able to move within the framework of financial discipline and stability."

The political pitch which Mr Rubio chose to make his plea for the EMS is neither out of character with the man nor the job. More than elsewhere the Central Bank in Spain is at the centre of tha Government's decision-making process; it has been the chief instrument chosen by the executive for overhauling the country and bringing it in line with Europe. Under Mr Rubio's stewardship, the impact of the bank has been even more noticeable, since money supply and interest rates became the chosen strategy and mechanism to cope with inflation. The central bank necessarily becama intimately tovolved with the targets that the Government set itself and then was charged with ensuring that they were met.

The long arm of the Bank of Spain has also been felt in the private banking sector. This is not in itself new, for the bank has traditionally been able to act as an arbiter through the leverage it is able to exert under the system of *coeficientes*. Lately, however, the institution has become increasingly vocal in expressing its concern over the shape of Spanish banks after 1992 and has immersed itself in the task of encouraging the bank merger process.

Mr Rubio's term as governor finishes at the end of next month. The likelihood is that Prime Minister Felipe Gonzalez will award him a second term. Should the premier do so it will be as much in recognition of past services as in anticipation of those to come as Europe tackles the issues of closer financial unity and a central EC bank.

Tom Burns

Mr Mariano Rubio: will have Spain sooner rather than later entrenched in the EMS

Profile: Professor Luis Angel Rojo

El Banco's academic

ONE OF the paradoxes of Spain is that there is a good economic performance and yet a low level of economic debate.

There is a consensus that the absence of high degree discussion is dne to the fact that there is only one theory and policy centre that is respected and powerful. Elsewhere there is the Treasury, the Central Bank and a handful of prestigious universities and research institutes but in Spain only *El Banco* is meaningful.

The fact that the performance is good has a great deal to do with the presence at *El Banco* of an academic who is viewed as something of a guru: Professor Luis Angel Rojo, the Bank of Spain's chief of research.

Professor Rojo's reputation is awesome both in the public and the private sector and the claims made for him by his numerous highly-placed supporters are immense.

It is said that if Spain has built np a strong currency and had coped with inflation and has managed to maintain a current account surplus in the aftermath of joining the EC, it is essentially because Professor Rojo holds the Chair of Economic Theory at Madrid University and has, for more than a decade, been running the Bank of Spain's studies centre.

His contribution is twofold. On the theoretical front, he has created an awareness about austerity and monetary management among a generation of economists who passed through his seminars and lecture programmes and subsequently rose fast through the administration.

On the practical front, he has provided the ammunition that politicians required by building up the data and studies facilities of the Bank of Spain, as well as the professionalism and motivation of the institution's 30-odd researchers. Statistics and forecasts are in short supply in Spain and the Bank of Spain goes a long way in filling the gap.

The actual invention of economic theories is not particularly useful in a society snch as Spain's while the application of solid economic theory is crucial. In this respect economy ministers discovered the advantages of having Professor Rojo at their elbow when they faced the task of persuading cabinet colleagues to accept stringently severe policies.

"Had it not been for Rojo, there would certainly have been errors when the Socialists came to power in 1982," said a senior private sector financial analyst who previously worked under the professor at the university and at the Bank of Spain.

Unfortunately, since the Socialist arrival in power, strict guidelines have been enforced over duai posts in the administration and Professor Rojo has had to take an extended *leave of* absence from his university chair in order to maintain his position in the Bank of Spain. His absence from the campus has been sorely missed.

Tom Burns

No escape

Continued from page 1.

1982, the sharp increases in fiscal debt (it runs at anything between 3.5 per cent and 8 per cent of gross domestic product, depending on what State spending is included) have been an even more important spnr to the growth of some markets than the arrival of foreign banks.

The Spanish primary bond market, for instance, totalled some Pta7,675bn last year, with State issues, including Treasury bills, accounting for Pta7,140bn. In 1982, the State issued bonds worth just Pta462bn and the entire primary market was worth only Pta1,022bn.

That level of State spending continues to be the only real cloud on Spain's medium term economic horizon. It keeps interest rates high and inflates the currency. The Government claims to have the situation under control but this is mostly because it has stumbled across a tax windfall, with receipts climbing some 15 per cent this year and not merely 3 per cent as expected.

Nevertheless, the economy seems likely to grow well beyond the 4 per cent predicted this year and exports have been holding up surprisingly well given the new strength of the peseta. Spain is in a grand mood, which makes it that much more difficult to walk away from a three-hour lunch.

Diana Smith explains the new environment facing state banks

Learning to live without 'coeficientes'

MADRID, CITY of stately bank buildings, is the city of state bank headquarters that are now gravely pondering their ways and means.

For years these august institutions drew their lifeblood from the banking system in the form of *coeficientes* — compulsory ratios of banks' assets passed (grudgingly) via the Treasury to state banks.

But now private sector "endowment" of public banks is being phased out. The Government, which used state banks as instruments of economic policy, expects them to be more self-sufficient and flexible. And all are now increasingly funding themselves and diversifying their services.

The public banks consist of Banco Exterior de Espana(BEE), and the four institutions under the umbrella of the Instituto de Credito Oficial(ICO), namely:

Banco de Credito Agricola (specialising in agriculture with 1987 assets of Pta375bn);

Banco de Credito Local (local authorities, 1987 assets of Pta555bn);

Banco Hipotecario (mortgages, 1987 assets of Pta1,275bn);

and Banco de Credito Industrial (credit and venture capital for industry, 1987 assets of Pta1,095bn).

BEE is a giant group with assets exceeding US$20bn, 470 branches and 8,700 staff, as well as being a hybrid commercial bank and official financier for capital equipment exports to developing countries.

Miguel Boyer of BEE: having to tackle some special problems

At BEE's grandiose head office in the Calle San Jeronimo, the sprightly chairman, Mr Miguel Boyer, a renowned former Economy Minister, is having to tackle some special problems: dwindling official export credit, a heavy exposure to Latin American debt,

Government expects them to be more self-sufficient and flexible

and the need to offset these by building up full commercial services.

Official credit for capital goods exports has, he says, plummeted from a peak of Pta 820bn, and by 1992 may be only Pta 250bn. Since this credit covers mainly exports to Latin America, the BEE is bearing 45 per cent of the Spanish banking system's country risk: and in 10 years it must increase provisions by 90 per cent, by diversions from a cash flow which totalled Pta44bn($400m)in 1987.

The answer, says Mr Boyer, is a vigorous streamlining of its domestic banking operations, wooing of savings and corporate finance, the marketing of tailored packages such as pension schemes, portfolio management and insurance, and the introduction of greater efficiency in the bank's branches and its offshoots abroad.

The BEE's hybrid status as official export financier and large banking group sets it apart from the four ICO state banks. The latter are, inevitably in the current climate, the subject of speculation about their future relationship. Will they blur the frontiers between them so much that they merge — as large private banks are beginning to?

This remains to be seen. But it is being noted that, outside Madrid, ICO group banks are testing two integrated operations and compatible data systems under the same office roof; not quite a merger into a mega multi-purpose public bank, but certainly a trial run for joint operations.

Meanwhile, in response to the Government pressure to be more self-sufficient, the ICO group last year reduced its dependence on Treasury funds to 33.4 per cent of the total. It plans to wean itself off Treasury funds altogether by 1991, and has so far increased funds taken on the market by Pta91bn($800m) to 30.7 per cent of total needs.

Last year, 27 per cent of total funds were its own resources, increasing pre-tax profit 65 per cent to Pta39.4bn($350m) against Pta23.8bn in 1986. The 1987 pre-tax cash flow rose to Pta68.6bn. Credit rose 53 per cent to Pta656.6bn($5bn).

Within the group, Banco Hipotecario de Espana(BHE),the mortgage bank, is facing a "torrent" of demand for mortgages from higher earning young people and for second homes, according to its chairman, Mr Julio Rodriguez. And with Treasury funds shrinking, he stresses that the market-place, is now a vital source of finance for the BHE. Mortgage bonds were pioneered by BHE in 1982, and a new Home Savings account, which pays 8.5 per cent interest to young savers who may use the funds after 4 years to secure a mortgage, brought in Pta8bn in the first six months.

The BHE has 750,000 mortgages on its books and, in 1988, it boasted a 77 per cent share of the market for mortgages on free market housing. An intensive marketing drive produced a 153 per cent increase in deposits in 1987, and 15 per cent increase in mortgage bonds. Self-generated cash flow grew over the year by 48.5 per cent to Pta22.4bn.

But now tough competition has arrived in the form of Britain's Abbey National Building Society whose UK mortgage portfolio is larger than Spain's entire mortgage business. The British group introduced itself to Spain with a splashy 25 year mortgage with interest a half a per cent or so lower than local lenders...an omen of 1992's no holds barred EC competition.

Less vulnerable to competition, although no longer sole master of its patch, is the Banco de Credito Local(BCL), main source of cheap financing for local authorities.

Keeping abreast of demanding times BCL, under the chairmanship of Mr Andres Garcia, has

The answer is a vigorous streamlining of domestic operations

diversified sources of financing, placing bonds and raising deposits and relying less on the Treasury which now covers only 66 per cent of its funds, compared with 90 per cent in the early 1980s.

A small bank, with only one branch and 287 employees, but proud of its speed in assessing projects and granting finance, BCL granted credit of Pta537bn in 1987 and had a pre-tax profit of Pta12.6bn. BCL's low interest investment loans still haver some competitive edge over those offered by private banks which are seeking increasingly to lend to cities like Madrid and Barcelona. The bank co-finances projects with the European Investment Bank, whose global loans it has passed on for some years.

Tom Burns on two new key players in Spanish banking

Alberto Cortina (left) and Alberto Alcocer (right): class leaders of the new boys

Los Albertos storm the citadels

ALBERTO CORTINA, 42, and Alberto Alcocer, 43, are cousins, are married to two sisters, are joint chairmen of their mutual $1bn business empire and have both acquired the habit of using the set phrase "my cousin and I have decided" when they are issuing instructions to aides.

They have adjoining offices that are almost identically decorated, adjoining flats in Madrid and adjoining estates in the west of Spain where they spend their weekend shooting and playing cards. Inevitably, they are known as *los Albertos*.

Together with their acquaintance-turned-friend, Mr Mario Conde, the youthful new chairman of Banesto, *los Albertos* are the class leaders of the new boys who in a matter of months have stormed the citadels of Spanish banking and prompted talk of a generational takeover.

The analogy with Mr Conde concerns strategy. Like their peer, *los Albertos* first made a business fortune, then bought a strong equity in a large bank and then set about reorganising their new asset. The difference between the two is that the Banesto chairman is a hands-on executive who hugs the limelight, while the two cousins are very rarely photographed and have become experts at delegating.

Los Albertos consolidated at the start of this year a 12.49 per cent shareholding in Banco Central, the largest shareholding in what, until the Bilbao-Vizcaya merger, was Spain's biggest bank. The equity is owned by a joint venture company called Cartera Central, which is controlled by the two cousins and which groups the flagship of their empire, the construction company, Construcciones y Contratas (Conycon), SGM Securities, the Swiss subsidiary of the Kuwait Investment Office and KIO-owned Spanish peper manufacturer Torras Hostench.

Conycon was a small company that was inherited by the wives of the two cousins. The two sisters, orphaned as teenagers, were taken under the wing of Mr Ramon Areces, the owner of the Corte Ingles department store chain who was a close friend of their family, and he, in turn, set their husbands to work in Conycon, teaching them the virtues of a low profile and self- financing in the process.

After considerable resistance from Central's 74-year-old chairman, Mr Alfonso Escamez, who was outraged by the raid launched by people he considered non-bankers, Cartera Central finally placed on the bank's board Mr Romualdo Garcia-Ambrosio, a contemporary of *los Albertos* and their trusted banking executive.

Mr Garcia-Ambrosio had been hand picked by the two cousins to turn around Banco Zaragozano, Spain's 12th largest bank, in which they have a 30 per cent stake. Later they persuaded Mr Jose Ramon Alvarez Rendueles, the former Governor of the Bank of Spain, to accept the chairmanship of Zaragozano.

The fact that Mr Alvarez Rendueles took the Zaragozano job two years ago, at a time when he was widely tipped to succeed Mr Escamez in Banco Central, has helped fuel comment on the long term aims that *los Albertos* harbour about Spain's number two bank.

Although they themselves hide from the public eye, the two cousins have a highly visible shining beacon of their might and wealth in the 45-storey Torre Europa that Conycon is putting up in north Madrid and which, three-quarters finished, dwarfs every other building in the capital. As well as building the high-rise, which is already worth some $500m, *los Albertos* have a 47 per cent stake in the cement company Portland Valderrivas which in turns owns 80 per cent of Torre Europa.

Well entrenched in construction, services, cement and real estate and with powerful international partners (in addition to KIO, the cousins also own 10 per cent of Cofir, Mr Carlos de Benedetti's investment arm in Spain), *los Albertos* look certain to emerge as key players in Spanish banking.

Bank pay and conditions

Radical pact introduces the split week and longer hours

IT TOOK five difficult years to fashion a three-year pact between the Association of Spanish Banks (AEB), representing management, and the three major bank-workers' unions belonging to the Comisiones Obreras (CCOO), Union General de Trabajadores (UGT), and Federacion Independiente de Trabajadores de Credito (FITC) who, together, represent just 15 per cent of Spain's 165,000 bank workers.

The pact, which was signed last month, is radically innovative, and its long, laborious negotiation reflects the distance that Spain, its banks and labour relations have come.

The pact introduces the "split week" — longer banking hours from Monday to Thursday, when 25 per cent of banks staffed by 25 per cent of employees will stay open to customers until 5 pm, January to June and October to January. In summer banks will close at 3 pm. The 25 per cent of staff who work late four days a week will not work Saturdays when banks are open until 3 pm.

Longer hours have been the dream of Spanish bankers for seven years and, as well as the split week structure, the AEB and the unions agreed on retrospective wage rises for 1987 and rises for 1988 and 1989 that are 2 per cent above inflation.

Many workers wanted more. In February they dismayed union leaders and irritated the AEB by rejecting painstakingly-negotiated terms by a narrow margin of votes. A small improvement in wage rises was secured and the pact was signed with no further referendum .

In today's wave of bank mergers and streamlining, where thousands of bank jobs are in jeopardy, the CCOO, UGT and *FITC know they cannot promise* miracles. They are sweating to get this message across to the rank and file, with mixed success.

One of Europe's most over-banked systems (16,000 branches: 2,300 people per branch compared *with 5,500 in France and 9,900 in* West Germany) due to the Franco regime's drive to capture savings, though not necessarily to offer good service. With banks on practically every corner, banks for decades used clerks, not specialists.

Banks for decades used clerks, not specialists

The world has caught up with this bloated system. In the last 10 years 50 banks have disappeared and *22,000 jobs have vanished.* Aggressiva competition from newly-installed foreign banks, new technology, and new demands on staff, have challenged the banks, their employees, and unions struggling not only to save jobs in tough circumstances, but also to play *a* role in innovation.

To Ms Maria de Jesus Paredes, the General Secretary of CCOO's Bankworkers union, arduously-bargained split weeks, wages and food allowances are just the beginning of a much deeper *change* — the recycling and training of bank clerks to enable them to keep their jobs, master up-to-date skills and management techniques, and secure better promotions.

Banks should use people better and more imaginatively, rather than see them as candidates for redundancy, says Ms Paredes. She insists the unions would back fully-fledged bank training schemes aimed at specialisation, as opposed to perfunctory instruction in the use of a computer. "Bank workers should be taught a career, breaking the old clerical mould," Ms Paredes insists.

Mr Santiago Barriocanal, Secretary of the independent FITC, which he describes as a non-political, *strictly professional union*, also considers training of the greatest importance. Banks must recycle their labour, he stresses, rather than replace them with outsiders. Most banks until now have sought the easiest solution — the quick pay-off. The "split week" and the pact to Mr Barriocanal is something of a landmark, the start of a new more far-reaching approach *to labour* relations.

Just as management in the past has been introverted and conservative, unions have been *politicised and regarded with* some scepticism. In Mr Barriocanal's view, the bank workers' unions have had difficulty penetrating the system, not just because the banks were large and fortress-like but because bank workers tended to go their own way.

The first big merger, between Banco de Bilbao and Banco de Vizcaya, is a testing ground for the unions. The two banks employed 34,000 people between them: 20 per cent may lose their jobs. Where there is job and *branch* duplication, Bilbao-Vizcaya will provide training schemes so staff can be redeployed.

Nevertheless, a loss of some *6,800 jobs* is a cold wind *whistling* through the system, and probably only the first of such blasts, if other large banking groups join forces in the future. The unions are trying to stave off frostbite.

Diana Smith

Stock markets face a series of major legislative reforms

A watershed year

"EVERYTHING IS going to change now," said one well-placed Madrid *agente de cambio y bolsa*, the entrenched stockbroking fraternity of the Spanish capital. "The reform is really quite dramatic because neither I nor any other *agente* was trained to be a businessman."

He was referring specifically to the introduction of the new Capital Markets Bill, *Ley de Mercado de Capitales*, in February this year but he was musing, also, about a whole series of other developments.

The Capital Markets Bill this year is one earthmover rumbling its way into the Spanish *bolsas* and the *agentes* are going to feel the tremors more than anyone else as their cosy protective walls are knocked down. But the bill is *by no means the only catalyst of* change in what looks like being a watershed year.

A second package of legislation in April concerning corporate law will prove no less of a shake-up. Known as the *Nueva Ley de Sociedades Anonimas*, this bill overhaul ossified legislation that had been in existence since 1951 and, as in the case of the capital markets law, the underlining philosophy is to introduce to the Spanish business world the same rules of the game that apply in the European Community. Major government directives are, however, only part of the general watershed scenario. In the final analysis it is the market itself which is setting the pace of its own facelift. This year whole new prospects are opening up in the *bolsas* by way of public company privatisations and private company mergers that in themselves will add a new dimension to the Spanish markets.

The Madrid Stock Exchange

To measure the speed and scope of the change one has only to go back to the attempted takeover bid at the end of last year by Banco de Bilbao for Banco Español de Credito (Banesto). That bid failed because it was thwarted by the Madrid *agentes* on technicalities, because it was constricted by existing corporate law limitations and because the market was simply not ready for such bold innovations.

None of these three hurdles potentially exist now barely six months later. The Madrid stockbroking community can no longer exert such pressure, the Companies Act paves the way for entirely different takeover strategies and the market itself nowadays positively purrs with delight at the mere talk of mergers.

The capital markets law contains several important innovations. At one level it links the markets of Madrid, Barcelona, Bilbao and Valencia by computer, establishing continuous and simultaneous trading, and it creates an electronic book-keeping system for automatic settlements to replace the present physical transfer of share ownership.

At another level, it profoundly alters the current status of the *agentes* by sponsoring brokerage houses and dealerships and by introducing a watchdog body, called the National Capital Market Commission, which is modelled on the US Securities and Exchange Commission.

The new market firms will, during a transition phase to 1992, remain largely the preserve of the *agentes* under the terms of the legislation. These, who up to now have combined the rôles of broking and of public notary for floor transaction have, in effect, to choose which of the two roles they wish to play.

The *agentes* willing to act as businessmen and prepared to lay out capital and take risks will form the core of the new market firms. Start up costs, installing computer systems and training personnel, could be in the Pta 200-250m range. Those who prefer not to test such expensive and untested waters can opt to become full-time notaries, Corredores de Comercio, taking their percentage from banking and financial transactions.

In 1990, Spanish and EC banks, portfolio management and investment companies will be able to acquire 30 per cent of the new market firms and the following year this proportion is upped to 50 per cent. In 1992 there will be open access to the market for all.

For the *agentes* who have been conscientiously preparing for the new legislation, the writing on the wall is fairly clear. There are unlikely to be more than a dozen market firms, the majority of these will have to look to partnerships and most of the new tie-ups will be international ones.

The companies law introduced in a draft version in April, contains a number of provisions that will have a very direct effect on the Spanish markets, by opening possibilities for equity tools that are in general use virtually everywhere but in Spain. A key provision is one that allows companies for the first time to issue non-voting shares. This had been specifically banned under the existing, 1951, legislation which referred to the "inalienable right" of shareholders to vote – a somewhat ironic reference since, in those Gen. Franco days, Spaniards had extremely limited political rights and were denied democratic elections.

The provision at one level casts a new light on merger and acquisition strategies and at another, by guaranteeing a minimum dividend for non-voting shareholders, should help attract international institutions to the Spanish markets.

In a second important novelty, the draft law abolishes a cumbersome practice whereby existing shareholders have preferential rights to all new issues. This will clearly introduce far greater flexibility in takeover situations by enabling companies facing hostilities, to quickly call on white knight allies. In a further defensive weapon, the draft bill introduces redeemable shares for the first time into Spanish corporate legislation.

The companies law also clears up the grey areas of corporate and market practise in Spain which have often mystified non-Spaniards. Thus it legalises the *autocartera* or company share portfolio which was in theory banned although it was widely practised by the loophole device of subsidiary companies. It also forces all companies with more than Pta 500m worth of sales to carry out an annual audit which will be filed at a central companies register.

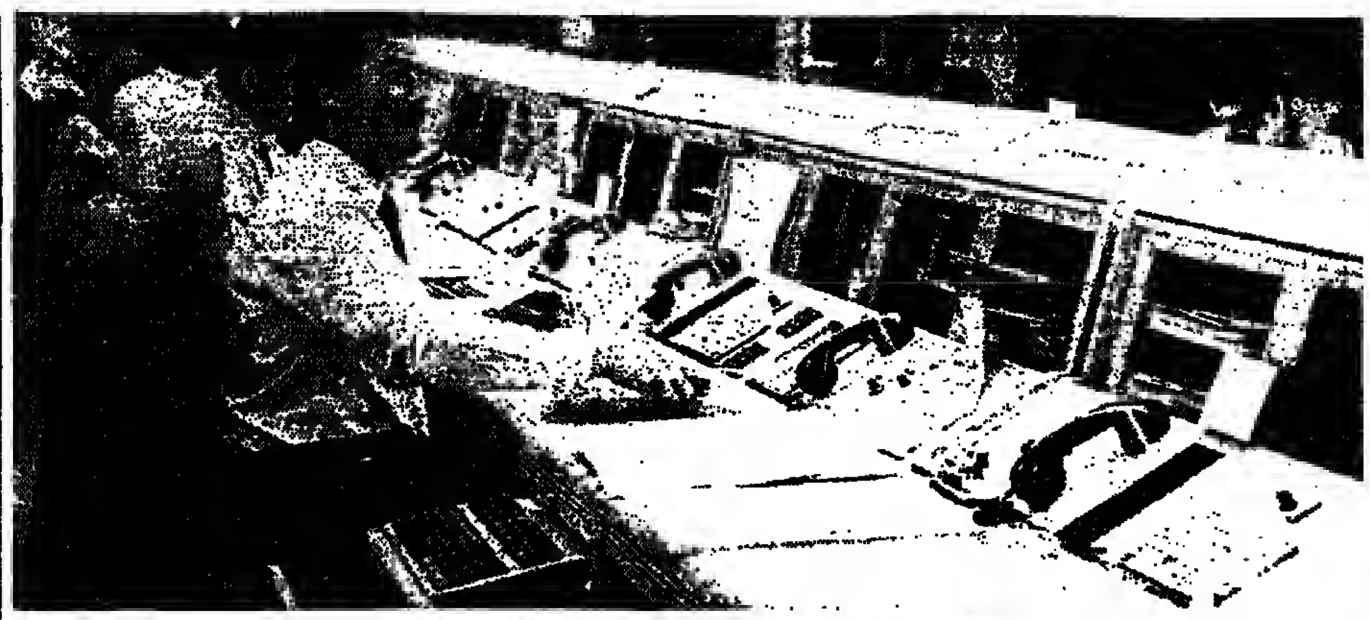
Previously only quoted companies or those about to issue more than Pta 10m worth of bonds were under a legal obligation to submit themselves to independent auditing. There will, in consequence, be a very sharp rise indeed in the auditing business in Spain and there will, more importantly, be a totally new transparency which should wet the appetites of ambitious raiders.

What brokers still find lacking is a reform of the fiscal conditions which severely penalise those considering investing or seeking to raise equity, by adding capital gains to personal income and taxing them together. Death duties on share portfolios are another disincentive.

There is however a consensus that much has been done in a short space of time to bring the Spanish markats in line with sophisticated financial centres. There is also the shared view that this has been done at the right time, the fundamentals in Spain continue to look appealingly rosy and there is more excitement on the Spanish floor than there has been possibly at any time since the introduction of the railroads.

In this latter sense, one key set of guidelines is that the Pta 55bn share placement last month by the state-owned utility, Endesa, represented alone more than all the new issues last year. The placement by the public energy company Repsol, expected in the third quarter, will be double that of Endesa. And now Iberia, the national airlines, has announced that it too will approach the market next year.

Tom Burns



The new dealing room at Bank of America's Madrid offices

Foreign banks

Moratorium halts the inrush

SPAIN IS proving a popular market for foreign banks – almost too popular in the eyes of the Bank of Spain which has had to take steps to stop the inflow.

With 40 foreign banks now holding licences, and many of them running substantial retail networks around the country, the central bank has stopped issuing new licences to foreigners for the time being, except in one or two exceptional cases. (An Italian and a Danish bank have been admitted for reciprocity reasons). It has also asked Spanish banks not to sell any of their existing banking subsidiaries to foreign interests, a request which they are naturally respecting.

This is not a bostile reaction by Spain which is making a big effort to be hospitable to foreign business (tbe moratorium will, anyway, have to be ended under EC regulations once the unified market comes into effect in the 1990s). It reflects the authorities' view that Spain needs time to digest the foreign inrush, particularly now that the entire Spanish banking industry is in the throes of change.

The inrush started in the early 1980's when several foreign banks such as Barclays, Chase Manhattan, BNP and Citibank were allowed to huy ailing Spanish banks as an *entrée* into the market. Their branch networks now amount to about 100 each.

More recently, NatWest of the UK has expanded its joint venture with Grupo March, Banco NatWest-March to include Banco de Asturias which will increase its network from 95 to 160 branches. This was only permitted by the Bank of Spain because NatWest will, in the process, reduce its stake in the joint venture from 49 to 47 per cent.

The high profitability and relative fragmentation of the Spanish market is what makes it attractive to foreigners. Newcomers like Barclays and Citibank have also led the way in offering high interest deposit accounts since the deregulation of interest rates last year. But despite these expectations, the banks' experiences have varied widely.

Last year, for example, Banco Atlantico, which is 70 per cent owned by Arab Banking Corp of Bahrain ranked 16th in the country's profitability league, and Barclays was only two places lower at 18.

Among foreign banks which only have branches in Spain, several were also highly profitable, notably Manufacturers Hanover which has a long tradition of successful business in Spain. Other notable profit makers were Morgan Guaranty and Bank of America.

But several foreign banks incurred losses. These included Citibank (which registered its loss despite selling its Madrid headquarters), Mitsubishi Bank, Banque Bruxelles Lambert, Chase Manhattan, and Lloyds Bank.

Aside from high operating and clean-up costs, the big source of losses last year was interest rates. in the middle of the year the Bank of Spain embarked on a sndden tightening of monetary policy which sent money rates soaring very rapidly.

This hurt foreigners in two ways. Many of them had, with the authorities' encouragement, been investing in government stock, only to see values plummet. The incident is now seared deep in bankers' minds, and many of them admit to feelings of resentment.

Soaring rates also put a sqneeze on foreign bankers who needed to finance the bulk of their lending in the money markets. Unlike the Spanish bankers who enjoy a large endowment of cost-free retail deposits and therefore see high margins at times of high rates, the foreigners find their margins sharply reduced.

The arrival of the foreign banks has coincided with a period of rapid modernisation of the Spanisb financial system. The growth of the money markets and new instruments like commercial paper have been quite useful for foreign banks who can import their expertise. Many banka have also seen opportunities in the investment and mercbant banking area which is ill-supplied by Spanish banks despite the great potential for deal-making which is thought to exist. However this area has so far proved disappointing and their are now rumours that some foreign banks may cease this activity.

Although tha direct activities *of foreign banks are most closely* chronicled, their indirect involvement in the Spanish market is growing also. An increasing number of foreign banks own stakes in Spanish banks. Deutsche Bank, for example, has 34 per cent of the Barcelona-based Banco Comercial Transatlantico, and is seeking more. Commerzbank owns 10 per cent of Banco Hispano Americano, and Cariplo, Italy's largest savings bank, may be about to take a sizeable stake in Banco Santander.

Whetber these boldings contain the seeds of future acquisitions or associations as the integrated market evolves, time will tell. But it all confirms that the Spanish domestic banking industry is one of the most exposed to *foreign* interest in the EC.

David Lascelles
Banking Editor

Profile: Asesores Bursatiles

High fliers find a US partner

STARTING SMALL with a robust will to become as big as oaks that grow from little acorns is becoming a habit in Spain's brisk market.

Madrid bustles with smart, tough young people intent on making it as capital or money market brokers and dealers, asset manages or financial engineers, or analysts. A few have made such a quick name that they are attracting glossy international capital in search of a Spanish partner.

Take Asesores Bursatiles (AB), founded in 1984 by three young higb fliers, Salvador Garcia Atance, Pedro Guerrero and Ignacio Garralda.

Members of the young professional élite – Mr Atance, President of AB, an MBA from the US Northwestern University, former economist in a government think tank; Mr Guerrero, a bank vice-chairman's son, Stock Exchange member and former government attorney; and Mr Garralda, public notary, member of the Stock Exchange and son of a director of that Exchange – AB's founders, gambled on the expansion of the Spanish market with the fillip of EC membership.

Lacking the financial capacity to be brokers for hordes of small clients, they set themselves up as analysts then developed into a funnel for foreign institutional investors.

At the time they started np, foreign investors were starting to discover Spain. The three partners, with three helpers and a computer, worked out of Pedro Guerrero's small, cramped office in the Calle Villanueva. They did not wait for clients to come to them: they travelled and marketed themselves abroad.

By 1987 they were serving 500 institutions and 23 per cent of foreign portfolio investment was passing through AB, much of it from the United Kingdom, that channel for US investment in EC countries.

AB's profits leapt from Pta450m in 1986, to Pta1.48bn in 1987, year of the wild stock market. Throngh them, Pta430bn flowed onto the market, 90 per cent of it from foreign investors, plus Pta300bn in fixed income paper. Were that not enough, the firm which took on five new partners and more staff to cope with the flood did Pta70bn-worth of financial engineering.

In 1988 Asesores Bursatiles have come a long way from their six-people-and-a-computer era: 55 eager young people now labour on two floors of a marble-halled edifice sandwiched between the lofty Stock Exchange and the stately Hotel Ritz, using the highest tech Spain can provide.

And now AB has moved into an even bigger league, after acquisition in March of 30 per cent of its capital by the huge American International Gronp (AIG), which plans to invest $108m in Spain in the next two years.

It all started when Alico, the American Life Insurance Company run by AIG, the insurance giant, becama AB's client. They liked the way the ambitious Madrid firm handled its business, and started wooing it about the same time other large international groups had the same idea.

AB succumbed to AIG because of its vast resources, about $28bn, and willingness to let the young Spaniards stay independent. They did not want to be devoured and depersonalised by an international group.

The new partnership means many future joint ventures in financial engineering, asset management, mutual funds, pension scheme management, wholesale insurance brokerage, venture capital and mortgage companies, and even a sidestep into Portugal and an investment company in association with Montepio Geral, Portugal's largest mutual savings bank.

The partnership is the AIG's first venture into Spain's financial market industry, a firm stepping stone to the 1992 wide-open European market. It is AB's stepping stone to eyeball-to-eyeball competition with big brokers – heady stuff for a firm with an average partner-employee age of 30 (no one over 40) and not even four years of history.

Diana Smith

Profile: Lloyds in Spain

New face for old hand

THE BLACK horse trademark had been in Spain for some time but at the beginning of this year it suddenly accompanied Lloyds Bank, which is unpronounceable in Spanish, on advertisements and cheque books, instead of the exotic-sounding, but familiar, title of *Banco de Londres y America del Sur.*

As Spain became one of the last batch of countries where the Bank of London and South America flag was lowered in favour of the name of the parent institution (neighbouring Portugal had switched four years earlier), this grandfather among the foreign banks in Iberia was gearing itself up to meet the challenges of 1992 deregulation.

Lloyds in Spain is in a more comfortable position than its British high street rivals because it is able to plan its business on its own and in its own time.

In order to gain a foothold in the country over the last decade NatWest has opted for a joint venture with a Spanish partner while Barclays has stepped into the trickier waters of buying an ailing spanish bank. Lloyds, in contrast, can trace its ancestry in Spain back to 1916 when the then Anglo South American bank, the future BOLSA, first opened up for business in Madrid.

The long track record and the years during which it was a member of a privileged group of just four foreign banks operating in Spain, and the only British one at that, has allowed Lloyds to attract what most would view as an enviable quality customer and this has formed the basis of its Spanish strategy.

'The change from Banco de Londres is not 'so much a change of image but clarification of the existing one'

The change from Banco de Londres to Lloyds is not, in the view of the bank, so mnch a change of image as a clarification of the existing one. The upmarket corporate and private customer that the bank had on its hooks in Spain was attracted principally by the Lloyds connection.

When the switch from Bank of London and South America finally took place, the institution had already mapped out the main lines of its strategy in Spain. A *cautious growth* had begun in 1984 to create a present network of just 23 branches.

The expansion included the opening of two branches in Marbella to serva high-net worth expatriates and the real estate companies, of three in export-orientated Valencia, which is one of the country's fastest growing *areas, and of several more in the* foreign-dominated business and residential areas of Madrid to bring up its branch network in the capital to eight.

Lloyds appears satisfied with a low-key exposure that contrasts with the aggressive promotion of Barclays and which now bas close on 100 branches in Spain. Certainly there is no attempt to take on the Spanish clearing banks and when it comes to foreigners in Spain it prefers residents to tourists.

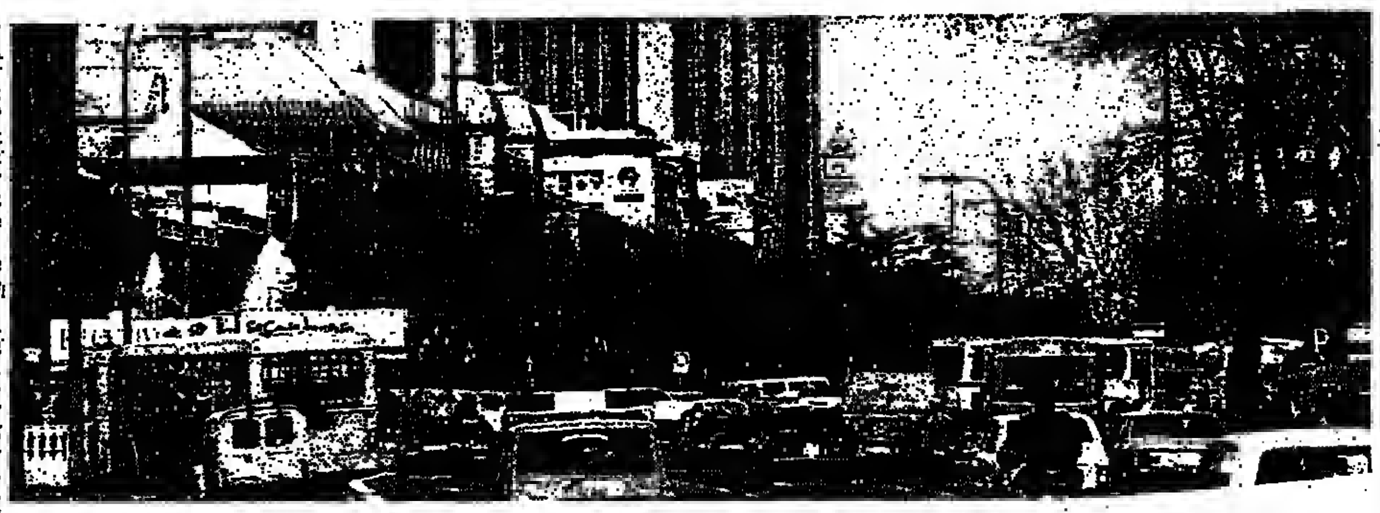
The emphasis is on modern and sophisticated products, tailor *made to selected clients. Amidst* talk of a wide-open market for European banks in Spain after 1992. Lloyds, witb its long acquaintance of the Spanish domestic market, has chosen to lower its sights and train its aim more finely.

Tom Burns

Spaniards are spending more on their homes, transport, durables and, above all, cars

Through the consumer sound barrier

DOMESTIC SPENDING grew very rapidly last year and was in the first qnarter of this year maintaining a steady clip that looks likely to pnsh the GDP growth close to the 5 per cent level of 1987. But as Spain crashes through the consumer sound barrier, with rises in net real income over the past three consecutive years, it is the pattern of spending and not the spending itself which appears the more interesting.



"a high proportion of the rush hour cars, to judge by their number plates, were acquired during the last 18 months"

A decade ago Spain's 38m inhabitants were spending 44.2 per *cent of their income on food.* Nowadays that budgetary chapter has been reduced to 30.7 per cent. Spaniards are spending more on their homes, on transport and communications, on durables and, above all, on cars. *Last year 927,000* cars were bought in Spain, a 35 per cent leap on the 1986 figure.

The point concerns, however, not so much the acquisition of vehicles but rather the manner in which Spaniards use their cars. A close acquaintance over a period of time with rush hour traffic in a Madrid, a Barcelona or a Valen*cia reveals a lot. A high propor*tion of the rush hour cars, to judge by their number plates, were acquired within the last 18 months. Each and every one of those new cars is on the road at the beginning of the month when there is pay cheque money to burn and when the hire purchase payments have still to make their impact. At month's end a significant number of Spanish consumers are running so sbort that they find themselves forced to *save on petrol and leave their* cars at home.

A bus driver who makes a daily run to a factory in east Madrid reported that he has scarcely 20 passengers in the first 10 days of any month, some 40 midway through it and that he has people standing in his 64-seat bus by the end of the month.

The bottom line is that Spaniards are big spenders and, viewed from the standpoint of the Northern European Protes*tant work ethic, they are fre*quently foolish spenders. Gambling, a national passion which is said to be second only to the Filipino love of lady luck, is a case in point.

It is estimated that 15 per cent *of family* incomes is spent on lotteries, football pools, one-armed bandits, in bingo clubs and on *race tracks. Spaniards could cur*rently be gambling away close on $25bn every year, a figure that is equal to the entire national debt.

Of all the recent Spanish business success stories, the most remarkable concerns the charity called ONCE, an acronym standing for Spanish National Blindpeoples' Organisation, which has *become, in terms of turnover,* the fourth largest domestic company. It earned Pta154bn in revenue in 1986, was forecast to earn Pta250hn last year and could come close to Pta400bn this year.

ONCE earns its incoma principally through running a daily lottery with a top prize of $5,000 and a weekly one with a $500,000 payoot. *Tickets are sold* by blind street vendors who are popular neighbourhood personalities and sell their quota of coupons well before the mid morning coffee break.

Vendors amass monthly earnings of some $2,000, which is comfortably above the average wage and last year ONCE spent more *on television advertising than* any other company in Spain.

The devil-may-care attitude to money may well be ancestral in a society that puts a high priority on celebrations of every kind. Hundreds of craftsman are employed and millions are spent, for example, each year in Valencia to huild scores of papier *maché floats that are then burnt* in a matter of bours during the huge bonfire party that marks the city's "las Fallas" fiesta in mid-March.

Such ostentatious traits run deep. It is normal for a family breadwinner to spend considerahly more than his monthly income in order to celebrate his *child's first communion in style.* Spending is that much greater when it comes to weddings.

The ratio of spending/saving appears however to be changing, albeit very slowly. The ratio, in any case, is one that is at odds with European norms. In 1983, out of a family disposable income total of Pta 18.3trillion, Pta *16.3trillion* went on private consumption and Pta 2trillion was saved. In 1986, the disposable income total had risen to Pta 23trillion and the spending/saving share was Pta 20.3trillion and Pta 2.7trillion.

One indicator concerns changing attitudes to insurance which have helped make this sector one of the fastest growing in the financial services field. Spain's insurance companies as a whole *grew last* year 30 per cent and the volume of premiums topped Pta 1trillion.

Life insurance salesmen have long complained about the difficulties of making headway in a society such as Spain's where people, again probably ancestrally, tend to live for the present and to share a fatalistic view of the *future.* Yet revealingly last year the volume of business accruing from the lifa insurance sector overtook for the first time, that of the auto sector.

The domestic insurance company Corporacion Mapfre reported that last year its regular life business reached Pta 12bn, a 35 per cent increase on 1986, *whereas* the untypical "single premium" business was 49 per cent down. Overall Corporacion Mapfre's consolidated after tax earnings rose by 55 per cent last year to post Pta 2.4bn.

This trend is almost certainly set to continue bnt, while the economic boom lasts, lottery sellers will be increasing their profits every bit as much as insurance salesmen. The monthly traffic jam pattern will remain both a regular feature of city life and a reminder of a spending babavionr tbat is deeply ingrained among Spaniards.

Tom Burns

Insurance industry

Moment of decision ahead of '92

MERGE AND TEST the dictum that union brings strength? Be regional or specialised and try to fend off outside competition with the help of personal contact with clients?

In the run-up to 1992 and free EC provision of services, these questions preoccupy Spain's 530 insurance companies. The sector has grown with the economy and diversified as clients' needs have diversified – but ahead lies the challenge of developing the market's capacity to retain major risks, as well as small mass risks like home, auto and life which it is fully fit to handle.

At issue is the very dimension of the market and of Spanish companies, now that a major clean-up has eliminated the weakest vessels. In a drive for merger, the largest banking groups which also own the larger domestic insurance companies, have a vital role to play and, conscious of this, have already begun to study their measurements and see where the seams can be enlarged.

SPANISH INSURANCE

1987	premium income (Pta bn)	market share (%)
Euroseguros	160.979	13.6
Mapfre	65.042	5.5
Union y Fenix	63.520	5.4
La Estrella	62.041	5.3
Vitalicio	47.200	4.0
Corp.Gral.Aseg	38.741	3.4
Mutua Madrilena	32.605	2.8
Zurich	30.038	2.5
General	26.018	2.3
Winterthur	25.504	2.1

SOURCE: UNESPA

Annual Spanish insurance figures exemplify growth of business and consolidation of structures, but this is only the first stage of pumping iron into an organism that will need unprecedented vitality in four years' time.

Last year was a good year for solvent companies. The insolvent – 94 small/medium and 3 large companies – were whisked off the market by the official Clea (Commission for the Liquidation of Insurance Companies) steered by Mr Alvaro Munoz, who is also chairman of Spain's largest mutual industrial insurer Musini, part of the huge INI public industry holding group, and leader in major transport insurance (oil, hulls, cargo and airlines).

By September 1987, Spain's insurance profits reached Pta42bn ($380m) – 50 per cent better than January-September 1986. Technical reserves grew to Pta2,500bn ($22.5bn), 41 per cent higher than 1986.

Premiums grew 30 per cent to Pta1,000bn ($9bn). However, 52 per cent were tax-shelter life premiums, considered havens for Spain's restlessly-shifting "black" money, sold not by insurance companies bnt by Catalan savings banks.

Criticised by the EC Commission for directly selling insurance and not conforming to their "exclusiva social function" (savings banks), the Catalan "Caixas" have made some, largely unsuccessful, efforts to limit sales of these premiums. Now a threat looms of tax.

Meanwhile, Mr Leon Benalbas, Director-General of Insurance, highlights 1984-87 growth of demand not only for life insurance but for auto insurance as the vehicle fleet grows and EC rules compel higber coverage, *and home or medical insurance* – reflections of economic progress and a greater desire for personal and household coverage .

At the same time, says Mr Benalbas, the profitability and solidity of insurance companies has improved after 1984 insurance legislation mada companies increase provisions and technical reserves, and expand solvency margins to 16 per cent of premiums.

The Clea's gradual liquidation of deeply-indebted companies – mainly tiny medical coverage groups - served two purposes: it improved the health of the market and eliminated factors that threatened the image of insur*ance as* a whole.

Now, says Mr Benalbas, comes the moment of decision for Spanisb companies that must ask what is in their best interests. Is their size sufficient for a desired economy of scale and retention of major risk? Do they want to remain Spanish or be bought by foreign companies?

Inexorably, foreign insurance groups are shopping, and buying small or medium Spanish companies. The advent of private pension schemes, in which insurance groups and the hig cbartered accountants will play key roles, adds spice to the foreigners' growing Spanish experience.

Merger fever is building up: the (recently-merged) Banco Bilbao-Vizcaya, (its two now-fusing partners owned several of Spain's leading insurance companies) is negotiating acquisition of the Corporacion General Aseguradora. This will generate a giant (for Spain), dominant group, with estimated annual turnover of Pta300bn ($2.7bn).

The dance of high-flying executives has begun: Mr Felipe Pujol, who whipped the Aetna Life and Casualty/Hispano-Americano's La Estrella into shape, has been wooed over to the Banesto group's high-ranking La Union y el Fenix.

At La Estrella Mr Pujol redesigned Life and Casualty segments, introduced tailor-made retail packages (70 per cent of the company's pemium income is generated by retail services), and sped np service witb intensive automation. A firm believer in the need to build up market-oriented, well-equipped insurance "fortresses", Mr Pujol is hullish about the future of the Spanish *market, whatever challenges 1992* brings.

A foreign group that cannot be accused of Johnny-come-lateliness, since it has been in Spain for generations, the Swiss Winterthur is Spain's largest foreign group in premiums and has muscled into Spain's top five in life, third party, accident and auto coverage.

Winterthur's volume of business has doubled every three years, according to its Spanish managing director Mr Jose Cercos, to a 1987 Pta30hn (US270m). The group competes agresively *for company risk and life busi*ness, and is diversifying into mortgages.

Size, *synergy (through* the creative tension of mergers), solvency and sophisticated service are Mr Munoz's prescription for Spain's capacity to retain the main risks. Speedy application is of the essence: big international brokers are moving in alongside Lloyds of London, soon to open a Madrid office, and insurance officials are reminding smaller enterprises that this is no time to sit around hoping the big bang will *not happen.*

Diana Smith

SECTION II
FINANCIAL TIMES
SURVEY

HONG KONG 香港

In making promises about ensuring Hong Kong's future prosperity, both Britain and China have put great store in the concept of "one country, two systems". **David Dodwell** argues that the concept has been debunked, but that despair need not inevitably follow

One country, new systems

AT THIS very moment, a large group of legal experts from Peking is winding up a three week visit to Hong Kong that has been aimed at divining local attitudes to a new constitution it is proposed to introduce in 1997 when China's "five stars" flag rises over the territory for the first time in 155 years.

At the same time, a team of economists from Peking is beavering away inside the New China News Agency – China's *de facto* embassy in Hong Kong – investigating allegations of corruption among the burgeoning population of Chinese trading companies based in the colony.

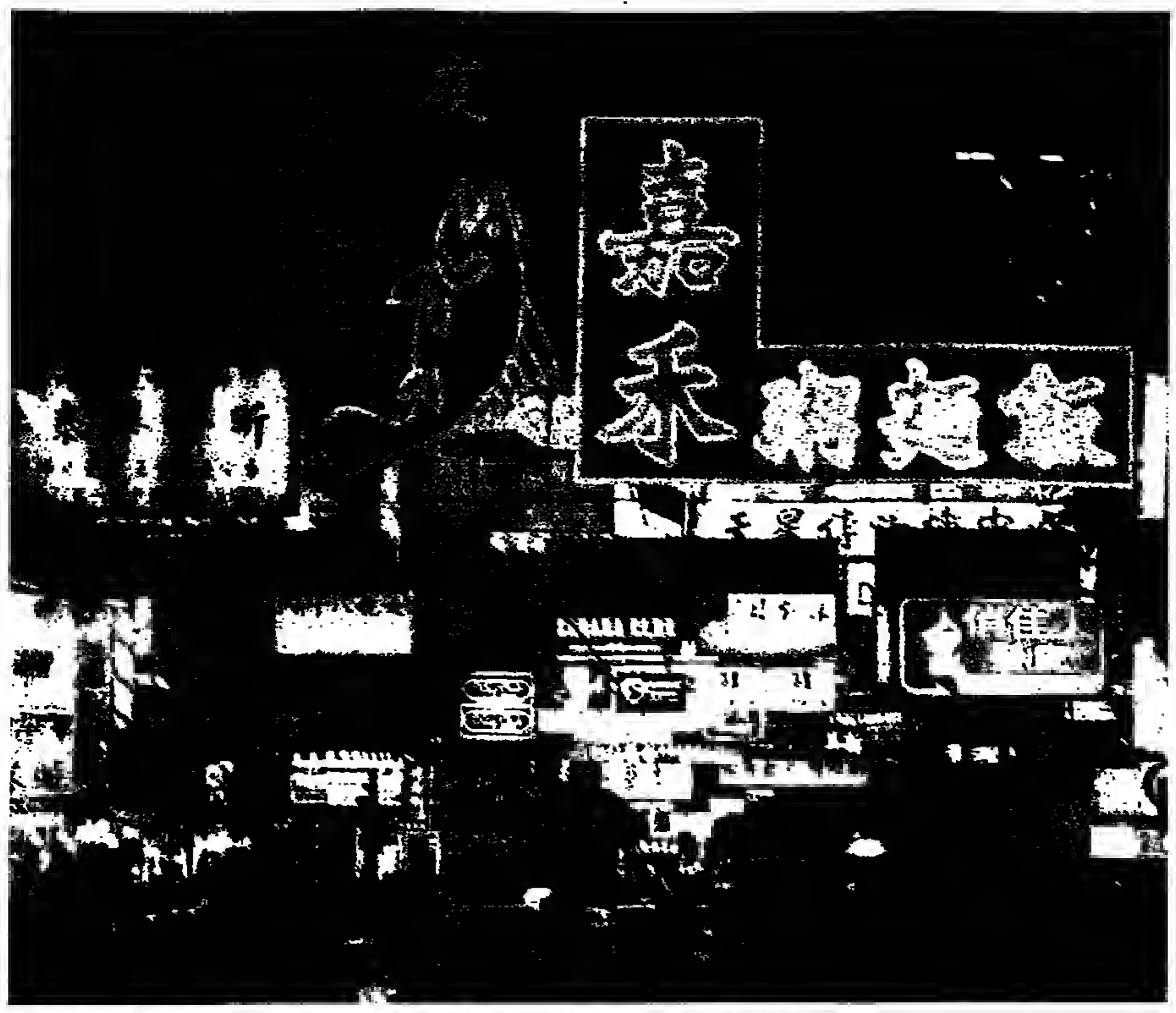
Over the past month an unprecedented blitz of diplomatic activity has brought to Hong Kong Tian Jiyun, China's vice premier responsible for special economic zones and open cities, Ji Pengfei, the state counsellor heading China's Hong Kong and Macao affairs department, and a team of top officials who have for the first time been shown around the inner sanctums of the current colonial administration.

In short, the process of transition from British colony to special administrative region (SAR) of China is gathering momentum, and the evidence of China's hand has spread into every area of the territory's life.

Witness the new Bank of China headquarters building, which with just 60 of its 70 floors complete, already soars high above every office tower in the territory's Central business district. Or the New China News Agency's opening of district offices around the territory.

Witness the surging tourist traffic into China, with a fast-expanding network of airline routes to China's interior cities. Or the hectic growth of the territory's Kwai Chung container port, which has been stretched to bursting handling entrepôt cargoes between China and the outside world. Or the emergence of increasingly powerful Chinese "hongs" like China Merchants' Steam Navigation, China Travel, China Resources, and the China International Trust and Investment Corporation (CITIC) as investors in Hong Kong public companies, or buyers of property and hotels.

Witness also the rush in demand for Mandarin language classes among Hong Kong's Cantonese speaking youth, and the stream of provincial Chinese opera troupes performing in the territory.



Is Hong Kong poised for a "Great Leap Forward" in 1997 – or an alarming leap in the dark?

Hong Kong

For some, such developments are the source of increasing alarm. They see a creeping absorption of Hong Kong into the mainland. As they read in the draft Basic Law that ultimate constitutional authority will be vested in China's National People's Congress, that interpretation of the law will rest with Peking, and that Peking will appoint the first SAR legislature, they see China using stealth and subterfuge to lull them into complacency until sovereignty is regained.

Many have noted that the promises made to Tibetans in the 1950s were not dissimilar from those being offered to Hong Kong today.

Not surprisingly, therefore, many have in the recent past sought to emigrate. Noting a net outflow last year of about 27,000, government officials insist that emigration has always been a fact of life in Hong Kong and this exodus is no cause for alarm.

The fact that most seem to be young professionals unlikely ever to return ought, nevertheless, to have given senior officials in the colonial administration some sleepless nights. Depletion of the territory's technocratic ranks at this pace over the next decade could seriously hobble its technological development, and its growth as a banking and financial services centre for the region.

However, the case for despondency is far from proven – and government officials will waste no time in emphasising that if the remarkable buoyancy of the economy is anything to go by, then such a view is probably mistaken.

Hong Kong has seen two years of double digit economic growth, as measured by GDP. Last year's 13.6 per cent increase was unmatched anywhere in the world. While domestic exports grew by 23 per cent, re-exports leapt by 46 per cent.

Such hectic growth has created severe labour shortages that neither illegal immigration from China, nor a major shift of manufacturing industry into Hong Kong's Pearl River Delta hinterland has been unable to relieve. Ten new hotels are due to be completed this year to cope with the surge in business and holiday visitors. Kwai Chung – already the world's busiest container port – is being expanded as fast as land can be reclaimed from the sea, with a new berth being added every six months for the next three years.

Government officials and businessmen – both groups admittedly with a vested interest in wearing rose-tinted spectacles – see reason for encouragement in the very same facts that send shudders through prospective migrants. Peking suffers from extreme ignorance about the way Hong Kong ticks after 40 years of political turmoil and xenophobia, they argue. Unless they are persuaded to visit Hong Kong in substantial numbers – to see for themselves how well it works as an economy, how sensitive local people are about possible mainland interference, how valuable it already is, and can be in future, to China's economy – then post-1997 prospects are uncertain.

Up to now, Peking's promise that Hong Kong would have "a high degree of autonomy" after 1997 has underpinned official confidence. Equally important has been Deng Xiaoping's "one country, two systems" concept, which is intended to resolve the contradictions involved in one of the world's most energetically free-enterprise economies being absorbed by the world's largest communist power.

In the past month, however, these "comforters" have been emphatically debunked – not by an advocate of despondency and doom, but by Dr Helmut Sohmen, a leading business figure, who sees the imminent absorption of Hong Kong as a unique opportunity for the territory.

Taking a position that is essentially treasonous both in Peking and London, he says "submersion" of Hong Kong in China after 1997 is inevitable: "I cannot honestly see a territory of 5.5m people further develop, or over any length of time maintain, a really separate system or existence as an integral part of a 1bn community. I cannot also see a 'high degree of autonomy' being anything else but an effort to maximise overall marketing power through the maintenance of a different brand name.

"Like in any corporate merger where there is subordination rather than fusion into a new company, Hong Kong will necessarily become like an operating division of the larger entity."

Rather than seeking to insulate itself as a "puny SAR desperately clinging onto traditions", he advocates Hong Kong using its position "to spearhead reform and growth". He says: "Hong Kong will export its system across its borders to speed up progress there ... It is ideally placed to act as the commercial and eventually even the political centre of South China."

He attacks the existing colonial government for trying to maintain "an untenable and unnecessary" commitment to the idea of autonomy, and calls on officials to educate locals and the Chinese authorities on the practical limits on their power during the transition, and on the "intricacies and fragilities of the Hong Kong economic and social system".

Dr Sohmen's comments show a much more pragmatic awareness of what is already occurring in Hong Kong and its Chinese hinterland than advocates of "one country, two systems" can ever achieve. Whether one shares his optimism or not depends not on whether Hong Kong is "absorbed", but on whether China's leaders continue to steer the country in the direction of economic and political liberalisation.

The crux for confidence in Hong Kong's future thus has less to do with terminological wrangles over clauses in the Basic Law, or on the water-tightness of clichés like "a high degree of autonomy" than with economic change in China.

Hence Dr Sohmen's claim that adherence to the principle of "one country two systems" is "untenable and unnecessary". The fact is that this principle gives no comfort to Hong Kong people whatsoever. What Hong Kong people apparently hope for is "one country, one system", with the one system having a greater similarity to their own that that currently advocated by Peking.

The likes of Dr Sohmen remain confident because they have seen China over the past decade make large strides in the direction of political and economic liberalisation. They will remain confident in so far as progress continues in this direction. In so far as Hong Kong can act as a catalyst for further liberalisation, then no opportunity should be missed.

From this perspective, the quickening integration of mainland Chinese enterprise into Hong Kong's economic mainstream can only be good. Already, with an estimated US$8bn invested in the territory, China has the strongest possible incentive to maintain prosperity. If one adds that Hong Kong manufacturers account for more than 1m jobs in the Pearl River delta, and have aided a boom in Guangdong province that has sucked at least 2m workers into the area from China's interior, then there are many inside China itself who share that incentive.

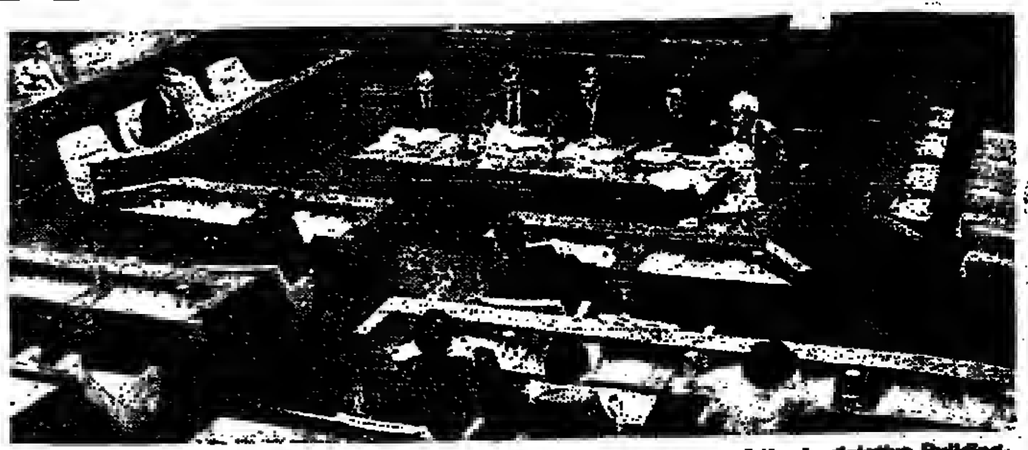
With at least 4,000 mainlanders now working in Hong Kong, and the number growing by the day as new trading offices and Chinese business enterprises are launched, so the process of integration and education is set to continue. The territory may only have a population of 5.5m, but it is possible to imagine that Hong Kong – and the mainland enterprises growing up in its midst – has a power quite out of proportion with its numbers to determine not just its own future prosperity, but to stimulate growth across the south of China.

ON OTHER PAGES

The Chinese characters for "Hong Kong" at the head of this survey were written by Ji Pengfei, Peking's state counsellor responsible for Hong Kong affairs. Financial Times correspondents take a look at his "hand", and those of other mainlanders destined to shape the territory's future. For details, see page 3

HONG KONG 香港

HONG KONG 2



The finance committee discusses the budget in the council chamber of the Legislative Building

Hong Kong's confidence needs a shot in the arm

Mood of gloom intensifies

HONG KONG'S mushrooming tower blocks, flyovers, reclamation and road tunnels point to even more frenetic money-making, but they do not hide deepening anxieties about the future. As Britain seems increasingly to brush aside concern about China's 1997 resumption of sovereignty, the gloom among many locals intensifies.

Sir Geoffrey Howe's visit last month will not have boosted local belief in Britain's desire to stand by commitments made in the 1984 Sino-British Joint Declaration. This says that Hong Kong's future legislature "shall be constituted by elections," which had been seen as a safeguard against China's interference. But the British Foreign Secretary interpreted this to mean only very partial direct elections, a much weaker protection.

Half Hong Kong's population are refugees from the mainland and well acquainted with China's manipulative and arbitrary style of rule. While there was some optimism when the declaration on Hong Kong's future was published, this has mostly evaporated as Peking has increasingly made plain its desire to maintain the place as, in effect, a Chinese colony.

Though many people in Hong Kong have no particular love for their present rulers, they acknowledge that the British have not misused the enormous powers given them under the Letters Patent and Royal Charter, which set the territory up as a colony. What bothers many Hong Kong locals now is that China's record over the past 40 years and longer gives no such assurance.

The result has been a growing exodus of young professionals, voting with their feet against future Chinese sovereignty. While actual emigration figures are hard to establish, the numbers of applicants for certificates of no criminal conviction (a general immigration requirement) rose from around 21,000 in 1985 to nearly 52,000 last year. This is nearly 1 per cent of the population, coming from the key managerial class.

Some Hong Kong people see Britain as playing a Machiavellian game for prizes such as Chinese orders for power stations or container ships in return for a quiet hand-over. Others speculate that Sir David Wilson, the Governor, wants a trouble-free stint in Hong Kong as a stepping stone to a top job elsewhere.

The British response when the Chinese change the rules of the game is seen by many as feeble. Since Xu Jiatun, head of the Xinhua news agency in Hong Kong and China's chief representative, claimed in 1985 that Britain was planning to introduce political reforms, an intervention in Hong Kong affairs which the Chinese had no right to make, the government has seemed to give up trying to do so.

Its defence would probably be that more can be gained from private negotiation with China than from confrontation. "Look at the direct elections issue," said one observer. "Not long ago, the Chinese were fiercely campaigning against them. Now all the options in the Basic Law for choosing the legislature contain a direct-election percentage.

"And the Hong Kong government has made a commitment to some direct elections in 1991," he added. "Given the intensity of China's hostility to the idea, that's quite an achievement."

A change of policy on Vietnamese refugees — and Sir Geoffrey gave a hint of that during his visit — might slightly mitigate Hong Kong criticism. The territory currently accommodates around 18,500 Vietnamese and this spring they were arriving at a rate of up to about 100 a day. There is growing resentment about this burden, and moves to designate them illegal immigrants would be popular. But this will not allay the much greater alarm at the thought of the future.

This fear took centre stage in Hong Kong in April. China published the draft Basic Law, the territory's post-1997 mini-constitution, to take soundings over a five-month period. But many Hong Kong people, considering the failure of the petition several years ago against the nuclear power station at Daya Bay and of last year's lobbying for constitutional reform, believe their views will have no effect.

In the debate so far on the Basic Law, wide differences of opinion have emerged as to what changes to seek. The law contains provisions which do not appear to conform to the "high degree of autonomy" promised in the Joint Declaration, but it also puts forward alternatives which suggest that Peking's mind is not yet firmly made up on all counts.

However, while Ji Pengfei, head of the Hong Kong and Macao office under Peking's State Council, said earlier this month that of course China expects to make changes, it is unlikely to want to surrender real political control.

This is precisely the area which gives rise to the most anxiety among Hong Kong's more liberal academic and professional fraternity, and even among some of the conservatives. If the proposal outlined in the draft for the formation of the first post-1997 government, via a "preparatory committee" established by China's National People's Congress, is adopted, Hong Kong will be Peking's creature from then on. Other serious worries relate to the powers of interpretation given to the NPC Standing Committee and to the lack of human rights provisions.

However, the conservatives — mainly in the business community — tend to take the view that in the main their own proposals incorporated in the draft contain enough checks and balances to keep Hong Kong stable. Providing everyone, China included (and of course themselves), can go on making money, they believe Peking will let the place alone.

Hong Kong opinion is also split on the correct tactics for negotiating with China. The liberals, spearheaded by Legislative Councillor Mr Martin Lee, believe more in confrontation, the conservatives in persuasion. Traditionalists, such as Peking-oriented Mirror magazine publisher Tsui Szeman, hold that nothing can be gained by publicly opposing Chinese officials, though he concedes that Hong Kong "needs its Martin Lees."

Whatever China's attitude, the issue seems likely to get more of an airing. Britain's House of Commons will consider the Basic Law next month, following this month's debate in the House of Lords. Pressure groups in Hong Kong, such as the churches or the various political associations, are becoming more vocal about the Basic Law changes they would like to see.

"The pressure of Hong Kong opinion on the Chinese is greater than often allowed," said a well-informed local businessman. "Past problem areas show that China can yield." But many in Hong Kong believe that even a better law would not prevent China running the territory any way it liked after 1997.

Yet if it displayed a willingness to listen now, it could allay some of the gloom. Hong Kong's confidence needs a shot in the arm. There is no chance that emigration will totally dry up, but it might be held at a trickle instead of a flood.

Collina MacDougall

Defence

Contribution from Britain stepped up

The Gurkhas: are there other suitable postings?

HONG KONG'S British garrison has set out on the long trail leading towards its final exit.

China agreed last November at the Sino British Joint Liaison Group meeting in Peking that the territory's police should gradually take over the army's non-military role and the People's Liberation Army has begun to think about its post-1997 needs.

More cheerfully for the people of Hong Kong, who view the Chinese takeover with considerable gloom, the British government has accepted that, from this year, it should pay another 5 per cent of the territory's defence costs, making its contribution 30 per cent in all.

Initially the Chinese were not keen on Britain's blueprint for the gradual withdrawal of troops. Finally, however, they understood that Hong Kong could not afford to keep the three Gurkha infantry battalions, as well as the signals regiment and the transport regiment, plus a naval and marine presence, right up to July 1 1997. This would be at the same time as having to strengthen the police force, which after 1997 will assume border patrol responsibilities to prevent illegal immigration from the mainland.

This transfer is expected to be completed in 1992-93, and the police are recruiting now to bring the force up to strength. Recruitment for border work will be up to the crack Police Tactical Unit, which will be doubled to 12 companies - around 2,040 men - over three years.

Resignations from the police force rose sharply in the first four months of this year, a cause for concern, but senior policemen denied they were related to emigration and the 1997 factor.

The first two police companies are likely to be put on border duties in 1990, sharing facilities with the army until they acquire their own. The Sek Kong army camp, in the New Territories, will be released for police use in 1993.

No timetable for British withdrawal has been worked out, though it is likely to be a gradual process.

"We'll need a sensible handover period, but that hasn't been discussed yet," said a senior British officer. "It's not likely to be raised for another five years.

"In a normal handover situation, we'd be training them," he mused. "There's no precedent for this one as Hong Kong's not becoming independent, and of course there's no question of collaboration."

However, the garrison has already hosted a group of PLA officers who came to look round the facilities. "Very impressed they were with the standard of living quarters," he added.

The Chinese force is not expected to need all the family accommodation and indeed troop numbers are thought unlikely to exceed 3,000-5,000, compared with the present British strength of 8,800.

The Chinese are unlikely to bring civilian personnel or dependants, which in the British case number 3,000 and 6,700 respectively. The belief is that Peking will send a crack unit: "They'll want to use Hong Kong as a showcase," said one official.

A more immediate issue this year has been the question of British garrison costs. For the past seven years Hong Kong has paid 75 per cent of the total, which last year came to HK$1.71bn out of HK$2.29bn. This proportion was virtually forced on the territory in 1981 when London felt that, with its budget surplus, it could well afford to pay. But increasingly Hong Kong has begun to feel that Britain has simply been passing on its costs to a colony which could not resist.

The 1981 agreement on these sums expired at the end of March, and negotiations have been in progress since July last year to reach a new settlement. There were strong feelings in Hong Kong that Britain was simply using the territory as a cheap and convenient posting for its Gurkha battalions. On top of that, the territory was about to incur more expenditure from building up the police.

Agreement in principle was finally reached by the Hong Kong government and the UK Ministry of Defence before the 1981 pact actually ran out, though it took four tough rounds of talks to get to it, and the details have not yet been worked out.

Frustrated Hong Kong negotiators complain of an almost pathological reluctance on the part of Ministry of Defence and Treasury officials to commit any proposal to paper, but are still hopeful of sealing a new agreement before the summer is out.

Hong Kong had hoped to achieve a 60-40 per cent shareout of costs, which proved impossible. Instead, they have had to be satisfied that British officials have apparently accepted the idea of Hong Kong paying a declining share in the years up to 1997.

The question of the Gurkhas, while not directly a matter for Hong Kong, is relevant since it is widely held that Britain has no other suitable postings for them and without the territory would have to cease recruiting.

This view is challenged, however, by Major-General Garry Johnson, the current Commander British Forces in Hong Kong and a former Gurkha officer. He argues that there is a role for them in almost any area where British troops serve if Britain could afford them without the Hong Kong contribution.

There is currently a battalion in Brunei, and another in Britain, where there is also an engineering squadron and some troops with the 5th airborne division.

Collina MacDougall

香港 HONG KONG

CONTENTS

Front page picture by Roger Taylor; all others by Ashley Ashwood

Is the New China News Agency a government in embryo?

A listening post for China

THE XINHUA (New China) News Agency is no ordinary news-gathering organisation. In reality, as China's top official body in Hong Kong, it voices Peking's policies and keeps an eye on all the mainland-oriented activities in the territory.

For years it has been seen almost as e Chinese consulate, and this position was virtually formalised when it recently hived off its journalists into a seperate office, leaving a huge rump of semi-diplomatic, economic and "research" officials.

Its diplomatic functions were recently highlighted when it hosted Chinese Vice-Premier Tian Jiyun, State Counsellor Ji Pengfei and a crowd of other senior officials, who visited Hong Kong a few weeks ago.

At the same time it has recently exercised – or failed to exercise – its role as party watchdog as the ethics of Peking's local traders have come under scrutiny. The thousands of Peking companies which have mushroomed in Hong Kong in the last three years have been under attack for corruption and high living. They are unofficially under Xinhua's supervision, paying fees to the agency for the right to set up in Hong Kong.

Tsui Szeman, elderly publisher of Hong Kong's Peking-oriented monthly magazine, Mirror, claimed last month that China was sending a team to investigate these companies' malpractices. While Xinhua denied this, there is no doubt that Peking is making enquiries which may cause it embarrassment. At any rate, Xinhua has recently proved unusually shy about talking to foreign journalists.

The director of Xinhua in the territory, 72-year-old Xu Jiatun, is China's most senior representative in Hong Kong and certainly not a news man. Formerly a top provincial official and Central Committee member till 1985, he now sits on the party's powerful Central Advisory Commission.

Xu is sometimes regarded as the British territory's strongest defender in Peking. His long experience of Hong Kong has made him a keen admirer of its freebooting style, saying recently that capitalism was one of mankind's great inventions.

Xu runs the communist party's unofficial branch in the territory, the Hong Kong and Macao Work Committee. No-one knows how he came to be selected for the top Hong Kong post, but despite his advancing years, recent viral infection, and rumours at the last National People's Congress meeting that he might step down, he still retains it.

Xinhua's job these days is to act as listening post for Peking, mastermind links with the Hong Kong government, widen contacts in the local community and collect information on how the place ticks. All this is seen as preparation for the handover to China in 1997.

To meet this role expansion, the agency has opened branch offices in Kowloon and Shatin in the New Territories where it can get to know the locals and play a part in district politics. The "United Front" tactics they practice, which woo the locals into what seem harmless communist-sponsored activities, are a standard strategy for extending power.

Xinhua is widely believed to have backed left-wing candidates in recent local elections. It nominated local candidates for China's National People's Congress, and also for the Guangdong Province Congress. Its growing contacts with business, colleges, schools and community associations enable it increasingly to keep its finger on the pulse of Hong Kong life.

Suspicious locals view Xinhua as a Hong Kong government in embryo. It recently reorganised its internal structure, setting up departments handling not just foreign affairs, which could be seen as appropriate to its diplomatic function, but domestic sectors like economics, social affairs and sport. Some believe officials are being trained in these departments to slide painlessly into their government equivalents in 1997.

Recruiting has recently focused on employing more Hong Kong people so that the agency can operate more effectively in the local environment. In the early 1980s new officials, including Xu, arrived from north China but *they were hampered by not* speaking Cantonese. Since then one spectacular success in local recruitment has been the appointment of a Kowloon teacher, Mao Junnian, to a senior post.

Mao the "Methodist mole" has had an instructive career. Spending over 20 years as an underground communist in a Kowloon methodist college, in 1984 he surprised everyone by joining Xinhua as head of its culture and education department. Then swift promotion followed last year when he was appointed one of the agency's vice-directors.

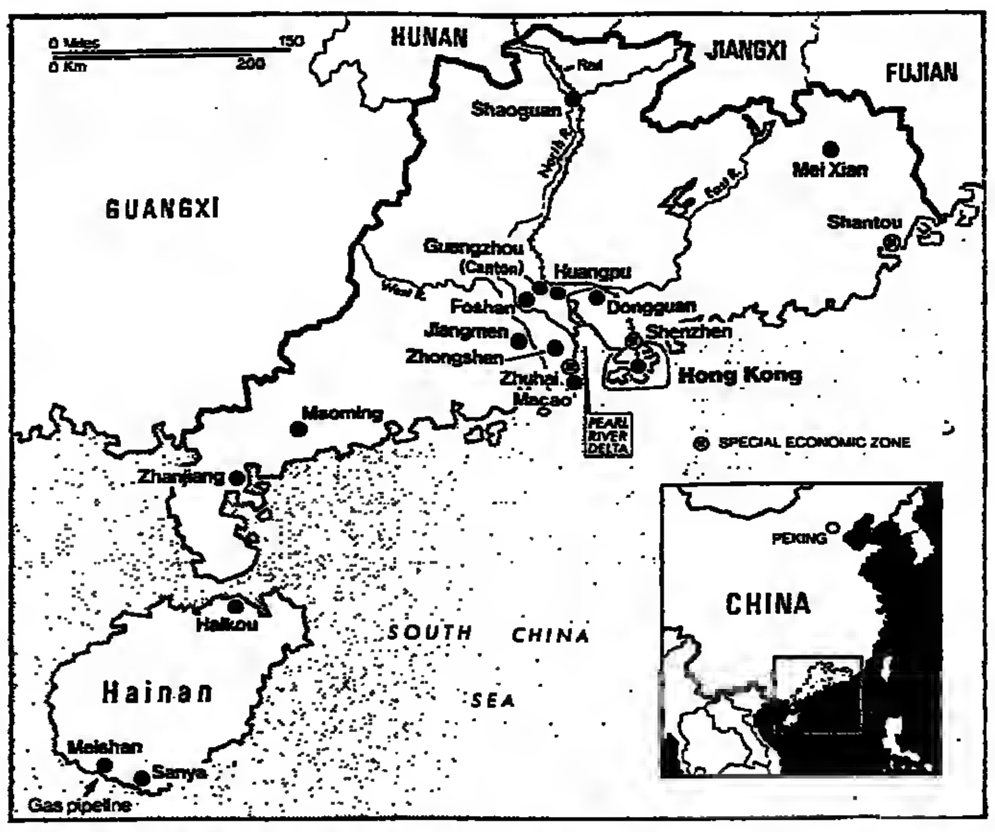
Another key Cantonese speaker is vice-director Qiao Zhonghuai, son of China's foreign minister of the mid-'70s, Qiao Guanhua. The elder Qiao set up the Xinhua office in Hong Kong in 1948 and his son attended school briefly in the British colony. Qiao has the advantage of being a northerner, Peking's preferred brand of official for such far-off spots, and yet able to mix freely with the locals.

These vice-director posts are important. Both Qiao and a third vice-director, Zhang Hua, are alternate members of the party's Central Committee. Four vice-directors altogether work under Xu, and below them operates a pyramid of other officials.

Xinhua's supremacy may be dented when the Chinese and British partners in the Joint Liaison Group, set up under the Sino-British Joint Declaration of 1984, establish their offices in the territory in July. But the agency has a role in this too since one of its staff is already e member of the Chinese team.

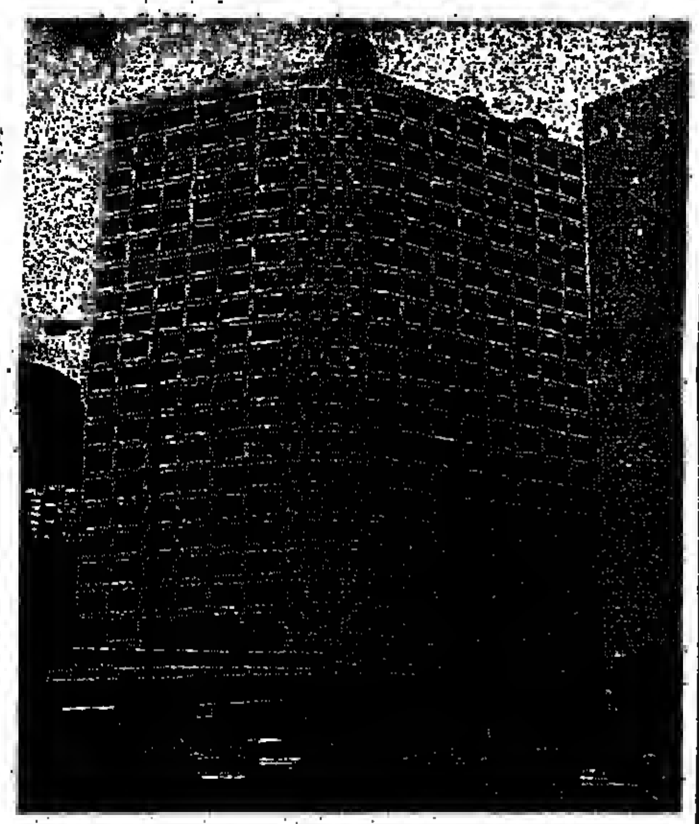
Xinhua is widely believed to carry out intelligence gathering, keeping tabs on the locals and building up files which may be useful in pinpointing opposition after 1997. As the next nine years run down, local people are likely to be increasingly discreet in their criticism of China. This may be unnecessary, but no-one should under-estimate Xinhua's capacity, amid its other numerous functions, to make records for the future.

Colina MacDougall



As business and manufacturing links blossom between Hong Kong and China, so it has become increasingly important to see the British territory not in isolation, but as the hub for economic development throughout southern China.

Situated in the very heart of Guangdong, at the mouth of the fast-growing Pearl River Delta region, it is easy to envisage Hong Kong's future as the area's main capital market, communications centre, and springboard for trading and investment links with the outside world.



The Agency's HQ in Happy Valley

Mirror magazine's publisher

Speaking out for democracy

IT IS not easy to imagine the softly-spoken 74-year-old Overseas Chinese from Burma, Mr Tsui Szeman (Xu Simin in Mandarin), speaking out about Hong Kong to Peking's leaders. Yet this is exactly what he, alone of the Hong Kong delegates, did at last April's meeting of the Chinese People's Political Consultative Conference (CPPCC).

For all his benign appearance, Tsui has a core of steel. He survived the nationalisation of his business and exile from Burma in 1964 and the Cultural Revolution in China in the sixties and seventies. He then emerged from China in 1976 to reconstruct a new life in his old age, mainly as a trader in Hong Kong.

However Tsui is best known as publisher of the Mirror magazine, which is sympathetic to Peking but not obsessively so. At the CPPCC meeting he sharply criticised the Chinese trade officials who came to Hong Kong, paid themselves far too much, looked for the good life and, having unlimited backing from state enterprises, disrupted the Hong Kong market. Reportedly, the Hong Kong Xinhua officials (whose job it is to supervise Chinese enterprises) afterwards refused to speak to him.

Though initially, in the debate over Hong Kong's Basic Law, Tsui joined the businessmen's lobby, the Group of 81 ("They were short of members then," he said apologetically), he is not a hardline conservative. "Hong Kong needs the protection of direct elections after 1997," he declares. "Hong Kong should have a high degree of democracy."

While firmly against direct elections in the territory now, Tsui is concerned about Peking's future role in Hong Kong and does not hesitate to say so. "The Chinese government should not try to manage except in the areas of defence and foreign affairs," he says. "It should encourage democracy, not deter it.

"The way of doing things in China should not be brought to Hong Kong. Peking should trust people here, and let them participate in politics.

"I'm pro-China," he adds. "But I'm worried about socialist ideas coming to Hong Kong. The party leadership has to change a bit."

This is pretty much what he said to Premier Li Peng when invited to meet him after the CPPCC session. Explaining the rise in emigration rates, he told him Hong Kong people lacked confidence in the communist party, and Chinese organisations were interfering too much in the territory.

Referring to the Chinese classic, Journey to the West, Tsui stressed the party should act like a Buddha and allow the Monkey King to jump around by himself. No matter how he jumps, he said, he cannot jump out of the Buddha's palm. At which the normally impassive premier laughed, and nodded agreement.

Colina MacDougall

HONG KONG 香港

There is confusion about the Press' future role

Into the 'heart-prison'

THE APPROACH of 1997 and the handover to Chinese sovereignty presents the Hong Kong media with the biggest challenge yet to its integrity. Among the 60-odd newspapers and dozens of magazines filled with gossip and sport is a core of serious publications which, if it wants to retain credibility, will increasingly have to grapple with the root issues of China's takeover.

"It is a time of transition," said one Chinese journalist. "It will make the papers more mature – perhaps at the end they will emerge from their chrysalis as butterflies."

Freedom of the Press is guaranteed under the 1984 Sino-British Joint Declaration and the recently-published draft mini-constitution for the post-1997 period, the Basic Law. But a glance over the border shows what kind of media appeals to Peking, and courage is needed for Hong Kong journalists to criticise the policies of their future leaders.

The question of the role of the Press is the more confused because there is a genuine belief in the still-British territory that more concessions can be won by private persuasion of the Chinese than by open criticism. A debate on this issue has already begun.

A recent article in the respected Hong Kong Economic Journal on this "heart-prison", or self-censorship, pointed out that local journalists were already applying the principle that open criticism was unhelpful. They had begun to reason, said Li Yi, author of the piece and editor of The Nineties magazine, that the more you criticised China, the harsher it became.

Such writers would add that, in any case, Peking paid little attention to outside proposals, and that if local papers talked Hong Kong down (for example, by reporting the rise in emigration figures) they made the situation worse.

They would conclude that criticising Chinese leaders who were, in fact, trying to get a better deal for the territory was counter-productive, and might undermine China's more liberal wing. And for Hong Kong papers to get involved in the 1997 issue only laid them open to charges of being manipulated by Taiwan or Britain.

To some extent Tsui Szeman, publisher of the well-known Mirror magazine, and Louis Cha of the leading Ming Pao group, share the views Li Yi was countering. Both believe that, in general, more can be achieved by publicly supporting China and lobbying privately to gain concessions, though Tsui maintains that the Press should and will criticise the Basic Law once the five-month discussion period due to end in September is fully under way.

Louis Cha is chairman of the political group of the Basic Law Drafting Committee, and, as such, is already seen by some in Hong Kong as fairly committed to the Peking line. But "I don't serve the interests of the Chinese," he says. "They want to use me as an independent journalist – they think of me as someone who can be co-operative, and I support their economic policies. If we encourage these, they may improve."

Li Yi disagrees. The media is there to inform the public, not to give leaders "constructive criticism". It is a journalist's duty to speak out without regard to leaders' sensitivities or the debate over reform.

It remains to be seen how far this debate will go. By and large the Hong Kong press, though lively, is underfunded and not greatly concerned with principle. Withdrawal of advertising by left-wing companies like the huge China Resources Co, might swing wavering newspapers to Peking's side.

In the main, Hong Kong's Press bosses are reluctant to spend much on journalists' salaries. Young reporters who join fresh from university full of ideas mostly leave after a year or two to earn a living in public relations or business.

The industry started years ago when newsprint was cheap and every tea-house had its banks of newspapers for customers to browse over. Today costs are high. Few of the bosses are willing to help reduce these by modernising the industry, especially since profits after the Chinese takeover in 1997 are unpredictable.

The old sharp distinction between the pro-Taiwan and pro-Peking Press has blurred slightly. The leading paper, Louis Cha's Ming Pao, which used to be seen as independent, has moved to a more pro-Peking stance. The readership of the old right-wing papers like the Sing Tao has, relatively speaking, declined.

The left-wing Press, led by the Ta Kung Pao, maintains a strong pro-Peking identity but even it has changed under the influence of China's reform programme.

"Our reporting from China is definitely freer," said deputy chief editor Tsang Tak Sing. "And here of course we're on our own – we're not criticised by Peking for what we say about corruption or political appointments in China."

The left-wing Press is generally seen as the most professional in Hong Kong. Pay and the career structure are better. Elsewhere, general morale and standards of written Chinese are low. There is a glaring lack of senior journalists and editors who can provide training, or even encouragement. Young reporters are depressed not just by low wages but by lack of interest in their work.

This low morale is worsened by the dual-language problem in Hong Kong. Chinese journalists feel patronised by English-speaking officials who, in turn, despair of being able to create the informal relationship which would permit off-the-record briefings.

"The Chinese Press is really very timid," said one journalist. "Most editors feel an obligation to the Hong Kong government, especially if they are invited to Government House." And this obligation will be switched to China the minute the Xinhua news agency asks them round, added another caustically.

The Hong Kong government is not particularly sensitive to questions of Press freedom. Its Public Order Amendment Ordinance of last year contained a clause making it an offence to publish "false news" (due for review later this year), and seemed genuinely surprised by the uproar that followed. Political censorship of films (exercised for years without legal rights) is now on the statute book.

In this atmosphere it may be over-optimistic to hope for an open discussion of the 1997 problem in the Press. The run-of-the-mill Hong Kong newspaper is unlikely to risk much. But some of the more serious publications may pick up the gauntlet and face the issue squarely. "Even in Hong Kong there are a few intellectuals who feel they have an historic role to play," commented one journalist.

Colina MacDougall

Mr Louis Cha: "I don't serve the interests of the Chinese"

Queueing for visas outside the US Consulate

Emigration

Talent pool starts to empty

BROKERS COMPLAIN about losing highly-paid secretaries, banks are rationalising their branch networks because of staff shortages, and the personnel departments of public utilities are scrambling to recruit managers and engineers.

As Hong Kong's transfer to Chinese sovereignty in 1997 looms nearer, the British colony's brain drain is being noticed.

The British National (Overseas) passports issued by Whitehall have left the colony's professional classes feeling distinctly vulnerable. The passports, referred to scathingly by local residents as "Mickey Mouse" documents, confer no rights of residency in Britain and are regarded as a symbol of Britain's anxiety to do nothing to offend Peking.

Tens of thousands of emigrants have decided that they will feel much more secure with a real Canadian, Australian or US passport tucked into their back pockets. Some clearly have the intention of returning once they have fulfilled the requisite nationality requirements of between two and five years, but the signs are that few of them do.

Until recently the attitude of both Whitehall and the Administration in Hong Kong had been to pretend the problem did not exist. But the failure to stem the tide, despite constant messages of reassurance about the colony's bright future beyond 1997, has now brought official recognition that the authorities need, at the very least, to keep a much closer track of the scale of the exodus.

In absolute terms, the numbers leaving over the past two years has been relatively small – in net terms perhaps 30,000 people emigrated in 1987. The impact on local banks, manufacturing companies and public utilities, however, has been compounded by Hong Kong's economic boom. During the past two years the economy has expanded by a staggering 25 per cent, driving the unemployment rate down to below 2 per cent. The colony would be short of professionals and managers even if no one were leaving.

Equally worrying, the trend in departures looks to be inexorably upwards. Last year's total was more than twice that of 1986 and government officials privately concede that it could reach 40,000 to 50,000 in 1988.

As a proportion of the workforce – less than 1 per cent – even that number might be regarded as manageable, particularly since the pace of economic growth is now slowing markedly. But the heavy concentration in the top and middle ranges of the labour market of those leaving means that the damage is disproportionately large.

A task force set up by the government last month in response to growing disquiet in the business community has yet to provide a detailed assessment of the breakdown by occupation and destination of the emigrants.

But the combination of a series of surveys conducted by local businessmen, and the lengthening queues in the Canadian, Australian and US consulates, provides a fairly accurate sketch. Successful entrepreneurs, company executives, bank managers and clerks, foreign exchange dealers, teachers, civil servants and members of the police force have all joined the trail.

Canada, Australia and the US are the most favoured destinations. Hardy anyone can (or apparently wants to) come to Britain.

Mr Al Lukie, the senior counsellor at the Canadian consulate in Hong Kong, says that his office issued 14,500 visas to Hong Kong emigrants last year who qualified under Canada's scheme to attract managers, professionals and other skilled workers. A similar number can expect visas in 1988. The emigrants ranged from computer systems analysts and laboratory technicians to motor mechanics and cooks.

A further 2,800 people got visas because of existing family ties in Canada and nearly 4,000 gained entry under a scheme designed to attract entrepreneurs.

Mr William Purves, the chairman of the Hongkong and Shanghai Bank, says he is as convinced as anyone in Hong Kong that the the transfer of sovereignty to China in 1997 offers opportunities rather than risks. But he acknowledges that since half the population in the colony is made up of refugees or children of refugees from China it is hardly surprising that many might not share his confidence.

The bank's personnel department expects that up to 10 per cent of its 670 locally-recruited executives may emigrate this year. It is considering the possibility of offering two- or three-year sabbaticals – the theory is that once employees had got their Canadian or Australian passport they might be happy to return.

Other banks hit by the exodus have resorted to offering bonuses to employees who will lure friends or relatives from other companies to fill the gaps left by emigrants.

As well as being among the brightest and most skilled, those leaving also tend to be relatively young. A recent survey of 39 major companies conducted by the Institute of Personnel Management showed that some 80 per cent of those who emigrated were aged between 26 and 39.

Mr Patrick Maula, the president of the Institute, predicts that the problem will deteriorate further over the next few years unless the colony mounts a more active campaign both to dissuade people from leaving and to attract back some of those who have already departed.

Increased training and development to improve career prospects, better educational opportunities for the children of young professionals, and more emphasis on improving the environment and extending recreational facilities, are among his suggestions.

Philip Stephens

Refugees

Intolerable rate of arrivals

FORGOTTEN PEOPLE: Vietnamese Refugees in Hong Kong read the glossy information pack handed to Sir Geoffrey Howe, Britain's foreign secretary, on his three-day visit to the colony late last month.

In the short period between his arrival and departure another 400 or so had joined the more than 13,500 already jammed into Hong Kong's overflowing camps. By the end of this month the total may well be nearer 16,000.

The daily arrival on its shores of 100 to 150 men, women and children has turned much of Hong Kong's original sympathy for refugees from the Hanoi regime into anger and frustration.

Such sentiment is not directed at the refugees themselves, who typically arrive bedraggled and hungry after their precarious two-week journey across the South China Sea; but rather at Britain and at other Western governments because of their failure to share the burden.

The rate of resettlement of the refugees to the US, Canada, Australia, the UK and to other Western nations has fallen from the peak of over 37,000 in 1980 to just 2,212 last year. The inflow, of course, also fell but not on a comparable scale – and more recently it has begun to rise.

The Hong Kong government's decision in 1982 to place the refugees in closed camps – effectively prisons – has done little to deter the influx. Several hundred people, turned down by resettlement countries, have been in the camps for five years, but none show any wish to return to Vietnam.

Sir Geoffrey offered soothing words about Whitehall's recognition of the gravity of the problem. The recent rate of arrivals, he agreed, had become intolerable. What he bluntly refused was any commitment to resettle more than the 20 or so refugees a month than Britain plans to accept from the colony during the rest of this year.

What has been the result is Whitehall's acceptance of the call from Hong Kong – echoed by other countries in the region – that it abandons the policy of "first asylum" agreed at the Geneva refugee conference in 1979.

That policy gives refugees a guarantee that wherever they land they will be treated as refugees as defined by the United Nations. Above all, the status confers the right to refuse to return to Vietnam.

What the Hong Kong government wants is a far more selective approach. Arrivals will be screened, some accepted as genuine refugees, and others detained pending their eventual enforced return to Vietnam.

The argument is that the Hong Kong simply cannot cope with an ever-rising tide of Vietnamese boat people who, anyway, are "economic migrants" rather than refugees from political persecution.

Mr Nigel French, the government's refugee co-ordinator, speaks of the growing frustration of countries in the region as resettlement programmes are cut back. The perception is that western governments have "turned their back on the problem".

He rejects suggestions that Hong Kong, which is itself short of labour, could absorb permanently more of the refugees. Apart from the existing pressures on housing and other social services in the colony, the political implications of accepting Vietnamese refugees, while sending back illegal immigrants from China, are not acceptable.

Advocates of the new policy insist that no one will be returned immediately to Vietnam. They will be detained until an eventual normalisation of relations between Western governments and Hanoi allows an orderly return, with guarantees of the returnees welfare.

Mrs Rita Fan, a member of the colony's legislative council, says the change is essential to provide an effective deterrent to future refugees. "I would welcome any solution that was better," she says, but adds that as long as Britain refuses to take a lead in proposing alternatives there is little else that Hong Kong can do.

Since the London Government is already significantly more restrictive than most in accepting refugees for resettlement, such an initiative looks implausible. Aid workers in the colony, however, regard arbitrary distinctions between political refugees and economic migrants as sophistry.

Ms Joan Summers, a volunteer for the Save the Children Fund working behind the 20ft fences of Tuen Mun camp in the New Territories, comments: "It is just too simple an answer to say that they are leaving simply for economic reasons ... The very fact that they have left Vietnam makes them refugees who cannot go back."

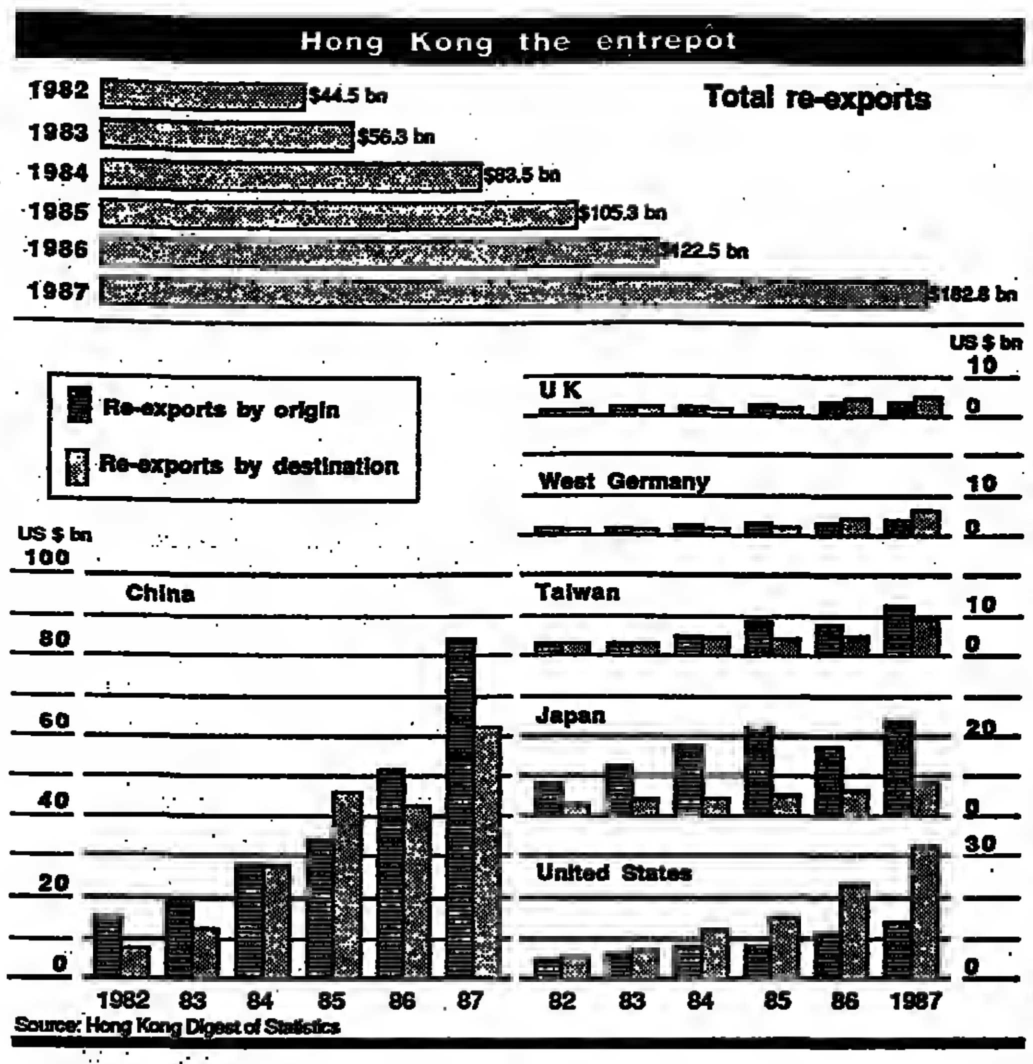
The motivations of those leaving encompass a range of different elements ranging from escape from famine, to continued political persecution, to the desire to rejoin families abroad. "I don't accept it is just a question of wanting a better life," she adds.

The refugees, anyway, have already leant what answer to give any questioner. "We left to escape communism" seem to be the first words of English they learn.

Philip Stephens

Vietnamese refugees in the Tuen Mun closed centre

HONG KONG 香港



Source: Hong Kong Digest of Statistics

Trade

A restored entrepôt

AS DENG Xiaoping has opened China's doors to trade with the outside world, so no door has been drawn open so wide, nor been so heavily used, as that into Hong Kong.

China's economic transformation has restored the British territory's role as an entrepôt, has underpinned hectic trade growth through a period of uncertainty in other world markets, and has encouraged the rapid development of a substantial services sector.

The pace of change has generated stresses that cannot be calculated easily but at the same time cannot be dismissed – like acute labour shortages, strain on the infrastructure, in particular the port, inflationary pressures, and a dilution of the territory's manufacturing base.

It has aroused unresolved controversy over what value can be attributed to Hong Kong's economy from entrepôt trade – which involves no more, in theory at least, than the trans-shipment of cargoes that have come from a second country and are destined for a third.

Controversies are simmering over textile quotas and the country of origin of goods being manufactured in China for Hong Kong companies and then exported via Hong Kong. These could jeopardise the territory's independent status after 1997 as a member of GATT, and so are already attracting close official attention.

The pattern of basing production on the Chinese mainland, but continuing to export through Hong Kong, has also led to confusion over the accuracy of published trade etatistics. Double and triple counting can occur as components are imported, transferred to the Chinese mainland for processing, and then sold back to Hong Kong as semi-finished products ready for packaging and sale onward to western markets.

Economists have argued that hectic growth in direct exports to China cannot be seen as a substitute for export growth to high value-added markets like the US – for the obvious reason that profit margins on exports to China are much slighter than they are on exports to affluent markets.

Despite all this, a general view in Hong Kong would be that the opening of the door into China is contributing strongly to the overall economic well-being of the territory's 5.6m people.

The pace of Hong Kong's trade growth over the past two years has been breathtaking. Real growth of imports of 13.6 per cent in 1986 was followed last year by a 31.7 per cent leap to HK$244.7bn.

Over the same period, domestic exports rose by 16.1 per cent and then 23.2 per cent, to reach HK$130.3bn last year. Re-export trade showed the most striking gains, however, with a 14 per cent leap in 1986 being followed last year by a 45.9 per cent jump last year, to HK$116.9bn.

While domestic exports have grown more sedately in recent months – up by 13.5 per cent between the first four months of 1988, and the equivalent period in 1987, to HK$60.2bn – re-exports have continued to grow at a giddying rate.

In the first four months of this year, they amounted to HK$73.5bn. This is np 45 per cent from the first four months of 1987.

The growth in entrepôt trade has been such that re-exports have since November last year been larger in cash terms than domestic exports – the first time this occurred for over three decades.

Re-export trade is almost entirely synonymous with China trade, and is a good litmus of China's export progress, and of the scale of manufacturing activity in the mainland by Hong Kong companies.

It is a measure of how important Hong Kong has become to China as a conduit for foreign trade that the territory last year handled about 36 per cent of China's total exports, and 20 per cent of its imports, for the first time overtaking Japan as China's main trading partner.

The dependence is, needless to say, mutual. From being Hong Kong's 46th most important trading partner in 1978, China is today its first, accounting for 31 per cent of its imports, 14 per cent of its domestic exports, and a third of its re-exports.

At the same time, Hong Kong's main export market – the US – has come to play a much less dominating role. From a peak in 1985, when the US accounted for 47 per cent of the territory's exports, this shsre has been pared to 33 per cent in the first quarter of this year.

This is in part due to increased sales to Europe and Japan, as Hong Kong's dollar-linked currency has given local manufacturers a valuable comparative advantage in strong-currency markets, but it is also due to the burgeoning trading relationship with mainland China.

It is due, too, to the emergence of indirect trade relations between Taiwan and mainland China over the past two years from which Hong Kong, as the main intermediary, has benefited greatly.

As economists argue over the true value of Hong Kong's re-emergent entrepôt role, the impact on the territory's infrastructure has been striking. Hong Kong's container port at Kwai Chung has leapfrogged New York and Rotterdam to become the busiest in the world, with throughput of almost 3.46m twenty foot equivalent units (TEUs) in 1987.

This was a leap of almost 25 per cent from 1986, and underpinned a government decision to commission a new terminal – Terminal Seven – before Terminal Six has even been completed. Facing the prospect of further unbridled growth well into the 1990s, government planners are already considering plans to commission terminals eight, nine and ten.

Some of the pressure on Hong Kong's port is due not to domestic exports or re-export trade but, surprisingly, to China's own coastal shipping. For many manufacturers in Guangdong province, for example, it is often simpler to supply domestic markets in northern China by trans-shipping goods through Hong Kong.

But the pressure is evident in other areas of the infrastructure. The Kowloon Canton Railway, which carries rail cargo between Hong Kong and the mainland as well as an increasing number of passengers, has seen freight from China increase from 1.9m tonnes in 1981 to 3.66m tonnes last year, while goods carried from Hong Kong into the mainland has shot up from 10,000 tonnes in 1981 to 1.1m tonnes last year.

A new road crossing the Hong Kong-China border is being opened shortly with the aim of reducing constant bottlenecks for goods lorries on the existing road crossings.

David Dodwell

Economy

Decisive shift in structure

EVERYTHING ABOUT Hong Kong's economy has been breathless for the past two years.

Economic growth adding up to a staggering 25 per cent over 1986 and 1987, annual increases in exports and investment running at about 20 per cent, and an unemployment rate of below 2 per cent are just a few of the enviable statistics.

Government revenues have exceeded all expectations, allowing a spring budget combining increased public spending, lower taxes and a healthy surplus for the territory's reserve.

Despite last October's stock and futures markets' debacle the property market, the traditional pulse of Hong Kong's economy, has remained strong. Corporate profits are buoyant.

Such spurts are not uncommon in Hong Kong. The economy has always had a boom-to-bust quality about it, which in some respects its volatile stock market has merely mirrored.

And some of the familiar problems which follow such booms are already emerging. As the economy slows – the government and most independent economists expect "modest" growth in GNP of a mere 5 or 6 per cent in 1988 – inflation has run up to an annual 7 per cent and is still accelerating.

With interest rates moving decisively upwards in tandem, the property market is beginning to look overbought. Full employment and the resulting upward pressure on wages are eroding the competitive gains that the colony has secured by rigidly maintaining its currency's link with the US dollar.

The pessimists in the colony see further parallels with the sharp downturns which have followed previous booms.

Inflation has run up to an annual 7 per cent

The US, still by far the most important of Hong Kong's overseas markets, cannot go on spending beyond its means indefinitely. Once it begins taking the necessary medicine – severe restraints on domestic demand – as in the past Hong Kong's exporters will be among the hardest hit.

Such parallels with the recent cycles are easy to chart, although the signs are that the "bust phase" which Hong Kong might see later this year and into 1989 will not be anything like as severe as that of 1985 when output actually fell. The 1984 Sino-British agreement has taken a great deal, if by no means all, of the political uncertainty out of the equation.

What the comparisons really miss, however, is the decisive and probably irreversible shift in the basic structure of Hong Kong's economy during the last two years.

That shift centres on the territory's re-emergence as an entrepôt for trade and investment links with China, a role it lost during the cultural revolution spanning the late 1960s and the first half of the 1970s.

The re-establishment of its position as China's window on the outside world is not of course a characteristic only of the last two years. It began in 1979 with the Peking government's open door policy and its "Four modernisations" programme.

The combination of the 1984 agreement and the latest economic boom, however, have brought a dramatic acceleration in the process. Much of the China's Guangdong Province, which borders the New Territories, is beginning to resemble an extension of Hong Kong, as the colony's manufacturers shift their production across the border.

Between 1m and 1.5m workers in the province's Pearl River delta are working directly or indirectly for Hong Kong-based manufacturers and the number is climbing by the week. According to Mr Alan Maclean, the Hong Kong Government's chief economist, some two-thirds of the estimated US$8.5bn that China has attracted in foreign investment since 1979 has come from the colony.

The traffic is not one way. Enterprises controlled by Peking have emerged as major players in the Hong Kong property market, in its manufacturing base and in banking. Unofficial estimates by Western diplomats put Chinese investment in Hong Kong at $US8bn – well ahead of the US$5bn accounted for by US enterprises.

The links are reflected in an explosion of trade volumes between Hong Kong and China. The volume of Hong Kong's domestic exports to China rose by 52 per cent in 1987, five times faster than its sales to the US. Much of the growth reflects the rapid industrialisation of Guangdong.

China now accounts for just under 15 per cent of all Hong Kong's domestic exports, making it the territory's second largest market after the US, which still takes around 35 per cent. Imports from China are growing almost equally strongly (by 42 per cent in 1987) reflecting both the shipment of products from Hong Kong's own factories in Guangdong and China's decision to channel more of its own exports through the colony.

China is also the largest market for Hong Kong's re-exports, which now account for more than 50 per cent of all overseas sales. The latest official statistics show that China was the destination for 32 per cent of the value of all re-exports in the first quarter of 1988. It was also the source of 47 per cent of goods re-exported elsewhere.

The HK$, meanwhile, circulates freely in the Pearl River delta region. The Hong Kong government estimates that at any one time between 20 and 25 per cent of the notes issued on its behalf by the Hongkong Bank and Standard Chartered are on the other side of the border. The exchange controls which are supposed to operate outside Guangdong's special economic zones are barely visible.

Businessmen and government officials in Hong Kong see both distinct economic and political advantages to the process of integration. The processing plants in China have provided manufacturers with land and labour needed for expansion and have enabled them to remain competitive during a period when labour costs within Hong Kong have risen sharply.

In parallel, the trend has accelerated a structural shift in the economy towards the services sector. The move is not confined to industries like tourism, which incidentally is booming, but embraces transport, financial services and telecommunications.

Philip Stephens

British hongs – traders – symbolise the capitalist spirit

Repositioning is under way

From left: Mr Simon Murray, managing director of Hutchison Whampoa; Mr Brian Powers, chief executive of Jardine Matheson; Mr David Gledhill, chairman of Swire pacific; and Mr Charles MacKay, chief executive of Inchcape Pacific

"WE ARE all groping our way to 1997," said Mr David Gledhill, referring to the uncertainty facing the traditional British hongs – traders – during the nine years before China assumes sovereignty over Hong Kong.

The big four hongs – Jardine Matheson, Swire Pacific, of which Mr Gledhill is chairman, Hutchison Whampoa and Inchcape Pacific – have grown up and flourished on the "barren rock" since the Royal Navy, at the behest of Britain's opium traders in the mid-19th century, seized Hong Kong from China.

Now powerful multinational empires with diversified business interests, the hongs are potent symbols of Hong Kong's capitalist spirit, synonymous with its rise as a global trading power. Their investment decisions are accorded microscopic attention by the local media and stock market, which sift their manoeuvres for updated "confidence" readings.

Jardine Matheson's 1984 bombshell, when the "princely hong" moved its incorporation to Bermuda, sent the stock market into a tailspin, and shaved more than 10 per cent off the hong's share price.

That is now a distant memory of the chronic anxiety afflicting the territory during negotiations between Britain and China on Hong Kong's future. Repeated assurances from China that Hong Hong's prosperity and stability must be maintained appear to have assuaged even the nervous Jardine camp's fears.

The hongs are, nonetheless, acutely aware that Hong Kong's political landscape is rapidly changing; that in future years they will need more than ever before to be fast on their feet. They face increasingly stiff competition from big locally-controlled companies, as well as from mainland traders such as China Resources, Everbright Industrial and China Merchants.

The Hongs began repositioning for the future several years ago. Cathay Pacific Airways, Swire's airline subsidiary, sold 22.5 per cent of its equity to the public in 1986 in a move designed to strengthen its claim to being Hong Kong's airline. Fledgling Dragon Airlines, controlled by shipping baron Sir Yue-kong Pao was then trying to expose Cathay's British ownership to gain traffic rights for itself.

Last year, in recognition of the fact Cathay will in future need the support of Peking to gain air traffic rights, Swire sold a 12.5 per cent stake in Cathay to China International Trust and Investment Corporation, the Peking-backed financial concern.

"Citic is a voice with close contacts with the [Chinese] leadership, a countervoice to whatever CAAC [China's national airline] is doing," said Mr Gledhill. Analysts feel it is inevitable that Citic will in future take a bigger stake in Cathay. Mr Gledhill, noting that Citic originally wanted a bigger stake, doesn't rule that out. Citic's move into Cathay was seen as a crushing blow for Dragonair.

While Swire and Jardine remain predominantly British concerns, Hutchison Whampoa has since 1979 been controlled by Mr Li Kashing, the territory's most dynamic entrepreneur.

With ownership firmly in the hands of a local Chinese, Hutchison appears to face fewer adjustment problems than the British concerns.

But Mr Li has, nevertheless, trumpeted his group's confidence in, and commitment to Hong Kong, backing that with HK$40bn-worth of investments during the past four years.

"To be seen to be investing in Hong Kong is good for our future relationship with China. Investment is one of the keys to our future. No investment – you can kiss this place goodbye. Investment, commitment – and both sides have got a long way to run," commented Mr Simon Murray, Hutchison's managing director.

While Jardine remains unapologetic for the "insurance policy" it took out in 1983 with its move to Bermuda, the princely hong maintains it is in Hong Kong for keeps. "We have always been here, and we are here to stay," said Mr Martin Barrow, a director of Jardine, Matheson & Company.

Though cynics accuse the Jardine camp of slowly selling down its Hong Kong businesses during the past 10 to 15 years, the group points to the recent purchase of additional shares in its huge property subsidiary, Hongkong Land, from a consortium of local predators led by Mr Li, as evidence of its faith in the future.

While Jardine, Hutchison and Swire are no longer purely trading companies – each has a substantial property portfolio – Inchcape has in recent years moved back to its roots as a trading, marketing and services company.

When, as a result, Inchcape sold its Worldwide House headquarters a few years ago, it was immediately accused of lacking confidence in Hong Kong. Shrugging that off as almost inevitable in sensitive Hong Kong, Paul Cheng, executiva director, says the group sees huge potential for developing its business in Hong Kong, and with China.

Inchcape's two-way trade with China now totals HK$1.1bn annually. "China is very important not only to Hong Koog, but to Inchcape as well. Looking at the future, one needs to focus or developing a strategy for Hong Koog and China. We are now doing that." Mr Cheng sees Inchcape, and perhaps the other hongs, increasingly helping China to increase its exports.

The question remains, however, whether the British-controlled hongs can retain their prominence under Hong Kong's post-1997 administration. Few people deny the hongs have in the past benefited from close links with the colonial administration. Even now government critics say the "one Hong Kong airline, one route" aviation policy is a clear example of gross favouritism towards Swire and Cathay Pacific.

"As Hong Kong comes under local management, I expect that local companies would benefit more from that than the hongs," said Mr Cheng. Mr Murray acknowledges that having a Chinese chairman is a huge advantage for Hutchison's business dealings with China. The Chinese government "will come to us before they will go to more British-orientated companies," he said.

The British hongs are not too concerned by this. They feel China's commitment to maintaining Hong Kong's international characteristics will act as a buffer against excessive favouritism. "China has gone out of its way to assure us that it is absolutely essential British companies remain a substantial part of Hong Kong," said Mr Gledhill.

Kevin Hamlin

Offices owned by mainland China: Guangdong province seems about to join the big players

As if to the manner born

PICK UP the paper almost any day of the week in Hong Kong and you'll find that one of the hundreds of identifiable mainland China companies in the territory has bought a hotel, sold an apartment block, redeveloped a site or launched a new project as if to the manner born.

You would not guess that just a decade ago the kingpins in this latest trend were unbending communist officials.

No one knows for sure how many businesses with part-mainland ownership exist in Hong Kong, but the total has been put at over 6,000. More conservatively, the US and Foreign Commercial Service estimates the figure at around 1,500. Over 400 listed by Hong Kong's American Chamber of Commarce reveal interests in property, banking, insurance, manufacture, trade and much more besides.

Some of these companies sprang up almost 10 years ago as China's reform gave its enterprises some rights to operate freely and open offices abroad. But most started operation in Hong Kong in the changed climate after the 1984 Sino-British Joint Declaration on Hong Kong's return to China.

Some are large new companies like the China International Trust and Investment Corporation (Citic), others are part-owned by old-established groups like China Resources, and yet more have been set up, initially as trading offices, by China's provinces and major cities.

These last now run companies in the territory from which they wheel, deal and conduct what is euphemistically called "liaison". Tsui Szeman, editor of the Peking-oriented Mirror magazine, recently accused their management of far too much wining and dining and a team of officials from China is expected in Hong Kong to clean them up.

The value of mainland investment in Hong Kong is estimated at HK$8-10bn. "They're here to make money by churning property," said one observer. "Last March (1987) Citic bought a hotel from Cheung Kong for HK$235m, in June they sold it to Tian An (part owned by China Resources) for HK$310m, and in September Tian An sold 70 per cent to Sino Land for HK$380m and then parted with the final 30 per cent this April, making a total of HK$460m."

The biggest players in this investment game are the old hands such as the Bank of China group, China Resources, China Merchants', and the China International Travel Service. They have been joined by new boys Citic and Everbright (run by Wang Guangying, favoured brother-in-law of China's late president Liu Shaoqi).

These are multimillion dollar companies, now seeking to invest not just in medium scale industry, transport or property but in Hong Kong's leading developments. Citic, already participating in the construction of the second cross-harbour tunnel, bought a 12.5 per cent stake last year in Hong Kong's airline, Cathay Pacific. In addition it bid, though unsuccessfully, in a group seeking to build the HK$2bn Tate's Cairn road tunnel.

"The old companies like China Resources or China Merchants used to stick to banking, department stores, or lighterage," said a Hong Kong economist. "Now they're into all sorts of things – manufacturing (with 15 per cent of the local manufacturing industry), tourism, and services, as well as property and construction."

Guangdong province seems about to join the big players. Guangdong Provincial Posts and Telegraph Bureau is buying HK$65m-worth of shares in Hong Kong Telecommunications, subsidiary of Britain's Cable and Wireless. The province already has an important stake in the territory through its Guangdong Enterprises (Holdings) Ltd. The business of its 28 wholly-owned subsidiaries ranges from fashion to electronics to construction.

Guangzhou (Canton) city has five, including the Yue Xue Enterprise Co, which itself has nine subsidiaries and 16 affiliates.

Yue Xue has reportedly already raised HK$150m on the Hong Kong market and planned further borrowings of over HK$3bn to finance further projects in Guangdong and Hong Kong. It has a 50 per cent stake in Wah Shing Toys which was floated on the local stock market in 1987.

According to one estimate, mainland-linked companies own 15 per cent of the equities traded on Hong Kong's stock market. Undoubtedly they got their fingers burned in last October's crash, but the general feeling is that they have more than balanced their losses with gains on the property market.

China Merchants, for instance, which owns more than half the Union Bank, originally an old-fashioned family bank, lost heavily last October through the bank's broking arm which had clients who were trading on the futures exchange. It has since hived off the brokerage business.

China Merchants and China Resources, which transport and deal in Chinese goods, have seen their profits rocket in recent years as Hong Kong's trade with China has soared. The China International Travel Service has gained, too, as tourists from around the globe descended on China for their once-in-a-lifetime trips.

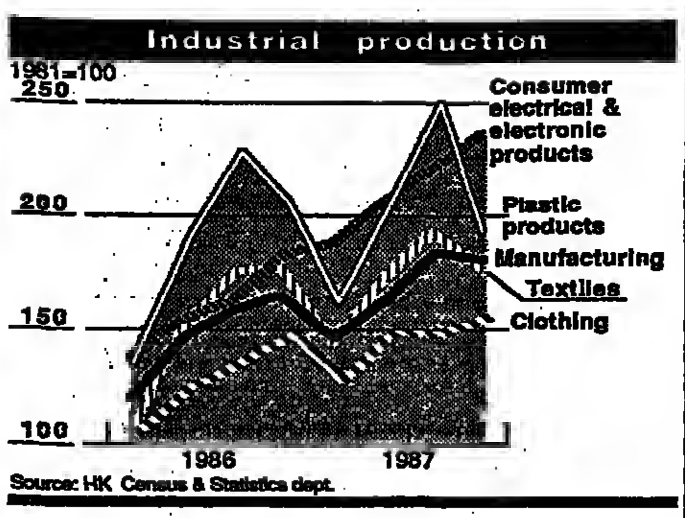
This new money has been a key factor in fuelling Chinese investment in the territory. Even the seemingly staid China Merchants, with wharves and warehousing in Hong Kong plus profitable management rights in the Shekon industrial zone just across the border, has gone into property by building apartments.

A lot of investment goes back to China from big players like Everbright, which are building a number of hotels on the mainland. Even the smaller operators find this convenient because as Hong Kong-based companies, they get the Chinese tax advantages allowed to foreign investors in China.

Colina MacDougall

Manufacturing

Grasping the opportunities



Source: HK Census & Statistics dept.

KADER, HK Metals and Plastics, Hung Lee Toy Monufacturing, read some of the garish signs outsida the scores of Hong Kong manufacturing plants lining the highway to the border between the British colony and China.

Nothing surprising about that perhaps – except that this particular stretch of the road is on the Chinese side of the border.

The approach to 1997 may be generating a good deal of personal unease abont the future among the captains of Hong Kong's indnstry, but they appear equally determined not to miss the immediate opportunities.

The shift towards closer economic integration foreshadowed by China's "open door" policy in 1978 and the acceleration of that trend since the Sino-Britisb accord of 1984 have provided Hong Kong's industry with abundant supplies of its two most precious resources – land and labour.

It has not been slow to seize them. As a result, the government now estimates that there are perhaps 1m to 1.5m workers on the mainland making toys, electronic gadgets, watcbes, handbags and shoes and other products for Hong Kong-based manufacturers.

China has provided a reservoir of cheap workers

That compares with the less than 900,000 people employed in manufacturing within Hong Kong's borders and means that the colony's industry has more than doubled its workforce within the last decade.

There are few reliable statistics but officials on both sides of the border do not quarrel with estimates that at least 7,000 Hong Kong companies have establisbed processing plants or joint ventures on tha mainland. Most are sited in the southern province of Guangdong, spilling out from the special economic zones into almost every significant town.

Typically, the plants are processing facilities for raw materials supplied from Hong Kong. The Hong Kong manufacturer provides tbe machinery and expertise, the local Chinese municipal or provincial authority contributes the factory and the labour. The output is shipped back to the colony for finishing or simply for packaging before being exported to their final destination. Some may also be sold on the domestic Chinese market.

The competitive benefits for Hong Kong's manufacturing industry are obvious. China has provided a reservoir of cheap workers at a time when the colony's own labour market has been stretched to the limit by hectic economic growth. According to companies with plants in the region, pay rates in Guangdong average perhaps only a fifth or a quarter of those in Hong Kong.

In the low-tech, labour-intensive, industries such as toys, textiles, plastics and watches, which represent tbe bulk of Hong Kong's manufacturing base, that competitive edge has been vital in defending the colony's overseas markets. Only the garment industry, in particular knitwear manufacturers who are subject to complex international quotas and stringent country of origin requirements, has been limited in the extent to which it can take advantage of the trend.

Mr Dennis Ting, chairman of toy manufacturer Kader, says that around 80 per cent of his 10,000-strong workforce is in mainland China. Despite lower productivity, the cost savings are enormous. Mr David Yeh, the chairman of rival toymaker Universal Matchbox, agrees that the expansion into the mainland has been an essential ingredient in allowing Hong Kong manufacturers both to expand their capacity and to remain competitive.

And over the last two years they have certainly done both. Tha volume of Hong Kong's domeatic industrial ontpnt, which captures only a small part of the additional production in mainland China, rose by over 16 per cent in 1987, although the pace of growth slowed in the second half of the year. Output of consumer electrical and electronic products jumped by a staggering 35 per cent.

Exports rose even faster, boosted both by the cost advantages of production in China and by the competitive edge provided by the Hong Kong dollar's depreciation against most major currencies.

The government estimates that domestic exports to the rest of the world rose by 23 per cent in real terms during in 1987. Re-exports, which capture both the shipment of raw materials to Chinese plants and the export from Hong Kong of the eventual output from those factories, surged by 46 per cent.

In parallel, China has emerged as Hong Kong's second most important market for domestic exports, taking around 15 per cent of its total overseas sales. Mr Yeh speaks confidently about the prospects of selling his Matchbox toys to 500m Chinese children.

But snch dynamic growth in output and in trade with China over the past two years has not left Hong Kong industry without its problems. For the immediate future the fortunes of the majority of manufacturers will still depend to a significant degree on demand for their products from the US. Though the proportion has been falling, the US still takes around 35 per cent of domestic exports.

- Manufacturers are diversifying. Sales to West Germany, to Japan and to Britain all rose strongly in 1987. But the collapse late last year of tha US toy company Worlds of Wonder, whicb brougbt substantial losses for Hong Kong manufacturers, underlined just bow vulnerable Hong Kong's industry remains to the vagaries of the US market.

The old cliché that wben the US sneezes, Hong Kong catches a cold is still valid. In those circumstances, the expectation that the November presidential election will be followed by more substantive efforts to reduce the twin US budget and trade deficits is hardly auspicious.

The Worlds of Wonder episode also highlighted one of the more fundamental flaws in the structure of the colony's industry.

While Hong Kong is commonly bracketed witb other Asian newly industrialised countries like South Korea and Taiwan, its industrial geography is fundamentally different.

The pressures for short-termism will intensify as 1997 looms nearer

The large-scale, increasingly higb-tecb industries in those countries do not find a parallel in Hong Kong, which instead relies on thousands of decidely "low-tech" companies industries to generate export revenues.

In key sectors like consumer electronics, toys and clothing, Hong Kong's companies are essentially Original Equipment Manufacturers (OEM) without their own brand names and marketing structures.

Design and innovation remain weak. Investment, thougb recently very strong, is typically aimed at projects which will give a complete "payback" in three or four years time rather than at establishing a technological lead. The pressures for such "short-termism" will intensify as 1997 looms nearer.

The expansion into Southern China has kept Hong Kong competitive and has given it a breathing space. But as other less developed nations in the region – Thailand, Malaysia, the Philippines – have built up their own industrial infrastructure, Hong Kong's breathing space has been curtailed.

The territory may no longer rely on plastic flowers, watches, cuddly toys and t-shirts, but it is open to question whether it has moved far enough along the road of technological development to be sure these countries will not soon be breathing hard down its neck.

Philip Stephens

Hong Kong's role as a foreign investor in China is now substantial

Wealth in the Chinese hinterland

THE HONG Kong government economist Mr Alan Maclean has a vision of Guangdong province as an industrial hinterland for the 21st century financial centre of Hong Kong. As the cities of the world develop, they increasingly export their manufacturing jobs to poorer regions. Hong Kong's transfer of processing work to Guangdong and, to a lesser extent, elsewhere in China, may simply be following a global trend.

As an expanding service centre, Hong Kong has resumed the entrepôt role it played before the bamboo curtain came down during tbe Korean War. In 1949 China took a quarter of Hong Kong's exports and re-exports, a share which by 1962 had dropped to 2 per cent. By 1987, at 23 per cent, it was almost back at its end-40s volume. Imports sbow the same pattern, though mitigated by the fact that Hong Kong always imported food, even in the "closed door" period.

Today, a very large proportion of what appears in the exports and re-exports to and from China is accounted for by the processing business. These figures are likely to rocket as business develops. For instance, jeweller and property developer Cheng Yntung, chairman and managing director of New World and Chow Tai Fook jewellery, has started up diamond cutting workshops in his bome town in Guangdong province. The value of gold and diamonds soon to be crossing the border is likely to be buge.

Hong Kong's role as a foreign investor in China is now enormous. It is the source of around 75 per cent by number of projects and about 70 per cent by contract value. The total amount of foreign investment (including processing agreements, which the Chinese include) up to the end of last year was US$22bn, of which US$8.5bn had been spent.

"Guangdong's share is around 40 per cent of what the whole of China has acqulred," Alan Maclean says. No other province or municipality has more than about 5 per cent. And the total is ballooning all the time.

Some 80 per cent of the total investment in Guangdong comes from Hong Kong. About a million workers in Guangdong are now estimated to be directly or indirectly employed on some 7,000 part-Hong Kong projects. This contrasts with a labour force within Hong Kong itself of only 900,000.

The importance of Hong Kong as an employer in China can hardly be exaggerated – annual per capita income in the Pearl River delta is reckoned to be around US$1,000, compared with a national average of abont US$300, and almost all this new wealth is due in some way to the Hong Kong connection.


Lorries wait to cross into China

Booming industry in the Pearl River delta has drawn workers from all over China, so Hong Kong's largesse is being spread wide. Construction tycoon Gordon Wu estimates that there are two million workers in Guangdong from other provinces. In Foshan alone there are as many as 5,000 from other parts of China, particularly tbe inland province of Anhui.

There are three powerful reasons for the spurt in investment from Hong Kong. One is the rising cost of wages in the territory, whicb was making exports expensive. Monthly pay rates are around HK$2,500 compared to abont $700 in Gnangdong. Another is tbe acute labonr shortage, which has made it difficult to recruit workers even at good rates of pay.

The relatively unsophisticated processes sre still tbe ones exported. Hong Kong companies have eased the management problems by despatching a handful of staff to supervise, while finisbing is carried ont in the British territory. A major part of the work is in textiles and garments, while Hong Kong's toy industry – in trouble because of a slump in the US market – has moved 50 per cent of its operations across tha border. Other industries include stalwarts sucb as electronics, watches and artificial flowers.

The third reason for the investment boom is the new activity of the mainland-based companies now operating in Hong Kong. The big players like Everbright, have an important role, but so do much smaller enterprises set up by the provinces. These use their position to keep substantial quantities of foreign exchange in Hong Kong, avoid Chinese taxes since they are "foreign" companies wben they invest in China, and acquire equipment for partners inside China without the usual bureaucracy.

China Resources, one of the oldest and largest mainland companies in Hong Kong, has committed more tban HK$800m to China. Everbright, Citic (China International Trust and Investment Co) and tbe China Merchants' Steam Navigation Co are likewise involved. There are also a number of important local entrepreneurs joining in, like Henry Fok, chairman of the Chinese Chamber of Commerce.

Big projects include botels which were popular until 1986 when the Chinese government put the brakes on, fearing there would be too many. But in any case botel management problems have proved borrendous, while currently bitter rows are proceeding over hotels in Chongqing and Guilin over allegations of corruption and theft.

Apartment blocks, many of which are now being built by Hong Kong companies, seem a likely substitute. Huge industrial projects like power stations are for the few, like Citic and Hopewell, botb of which are substantial enterprises.

Hopewell is run by possibly the most spectacular player in this investment game, Princeton-educated construction tycoon Gordon Wu. He claims to be the world's largest investor in China, having already committed US$700m to the country. He too believes that Hong Kong must develop its natural hinterland, the Pearl River delta, and is confident that his investments will promote this.

"It happened in Japan, Korea and Taiwan," he said. "We must switcb here to higher tecb jobs and give the others to China. My motivation for investment? I want to be here in 1997."

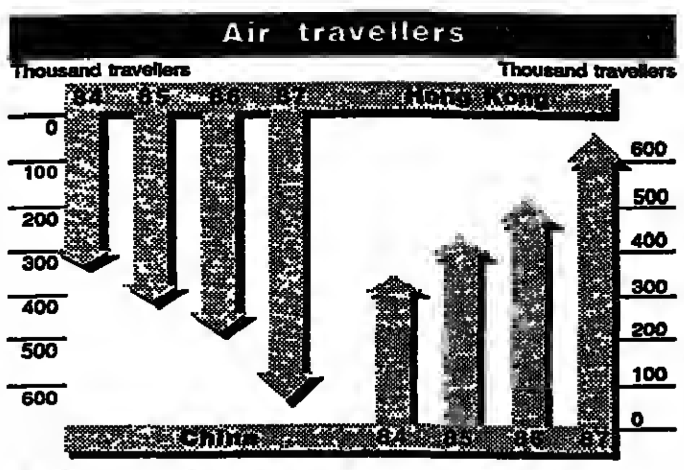
His main projects currently under way, the HK$10bn highway linking Hong Kong, Macao and Canton, the (completed) Shajiao B power station and the new generating equipment he plans to add, can all be seen in the context of boosting prosperity by opening up industrial prospects in Guangdong.

"I'm never confident unless my neighbours make money," be comments.

Colina MacDougall

Air traffic negotiations

Set to be grounded



Source:HK Civil Aviation Dept

WHEN BRITISH and Chinese air traffic negotiators meet in Peking next month, it is a safe bet that they will be at loggerheads within minutes. Talks a year ago ended in stalemate, and there are no obvious reasons why the ontcome should be different this year.

The main casualties of this stalemate will be Hong Kong's two locally-hased airlines – Cathay Pacific and Dragonair. Tbe odds are that China's national airline – CAAC – will for the time being fail to make the predatory inroads into Hong Kong that it would like. But anyone searching for signs that China will honour commitments to maintaining tbe territory's post-1997 autonomy as an air traffic centre will probably search in vain.

"CAAC is internationally famous for being impossible and unreasonahle – whether it is dealing with Hong Kong or a second country," commented Mr Rapbael Hui, who heads the Hong Kong contingent in the British negotiating team in Peking: "Difficulties are compounded for us because China does not accept Hong Kong as a separate country."

Cathay and Dragonair will be casualties because both are seeking to win the right to fly more scheduled flights into the mainland – and the chances are that both will emerge unsatisfied.

For Cathay, the call is for extra flights to Peking – where it currently flies three times a week – and Shanghai, where it operates four flights weekly. It has been rehutted twice in the past, and cannot be optimistic of a hreakthrough this time, despite the clearly demonstrated need to provide extra seats on these two spinal routes into China.

The pitch is queered by the fact that Britain's national carrier, British Airways, has stuck doggedly to lts long-standing right to operate services from London to Peking through Hong Kong. CAAC insists that this means two "British" carriers are operating the Hong Kong to Peking ronte, whereas only CAAC operates into Hong Kong from the Chinese side.

The fact that CAAC operates 60 flights a week into Hong Kong, compared with a combined total of 8 flights by BA and Cathay appears to count for nothing. The position is only sustainable when it is recalled that Peking insists that Hong Kong is not British, but Chinese territory, and that British carriers are allowed to operate out of the territory only under sufferance.

Dragonair has even more at stake, as it bids for existing charter services to eight mainland cities to be upgraded to scheduled flights. Dragonair has had steady losses since it began operation almost two years ago and cannot advertise its mainland flights until these are recognised as scheduled services.

An anomalous curfew at Hong Kong's Kaitak airport, which bans afternoon flight movements by charter operators, gives added urgency to the need to upgrade to scheduled services. Dragonair has just three aircraft, all of them operating short-hanl services in the region, so the ban imposes crippling inefficiencies in airline use.

"We could get another 15 per cent out of our schedule if we had freedom to fly through the curfew," says Mr Jim Foster, Dragonair's general manager. This would lift daily utilisation from seven to eight hours.

As an "upstart" on Hong Kong's aviation scene, Dragonair has more than CAAC as an adversary. In fact, to the contrary, it argues in its battles with Cathay Pacific and Hong Kong's civil aviation authority that it has a special favoured relationship with China's national airline.

It has fought bitterly and in vain over the past three years to win the right to operate services to Peking and Shanghai. Even since winning its case in front of Hong Kong's Air Traffic Licensing Authority (ATLA), a government policy of allowing only one airline to operate on any one routa, has kept its ambitions grounded.

Jim Foster insists that the government, in cahoots with Cathay as tbe "established" airline, is blocking Dragonair against the public interest. He cites a letter from Hu Yizhou, former head of CAAC, assuring Dragonair that an application to operate flights from Hong Kong to Peking and Shanghai would win approval. Where Cathay has failed to win the right to operate additional flights, Dragonair can succeed, he insists.

Hong Kong aviation officials freely admit that they are pressing Cathay's interests at the expense of Dragonair. They note that Cathay has been bidding to operate more regular services to Peking for six years – starting long before Dragonair was formed – and pour scorn on the claim that Dragonair is in any way seen as Hong Kong's favoured carrier.

On the contrary, they suggest that CAAC has cleverly raised Dragonair's hopes in an attempt to "divide and rule" in its air traffic talks on services between Hong Kong and the mainland.

Whether they are right or not, as a regional carrier with an increasingly comprehensive route network inside China, Dragonair has a strong-prima facie case for being allowed to operate services to Peking and Shanghai, and if China's aviation authorities persist in rejecting Cathay's appeals, the authorities may eventually have no choice but to allow Dragonair to test the truth of Hu Yizhou's letter.

Two unique developments over the past year provide the glimmer of a chance that CAAC will enter this year's air traffic talks in more pragmatic mood. First is the emergence of five regional airlines in China, which are now supposed to be operating independently of CAAC, and are all keen to negotiate rights to fly to Hong Kong.

Second is CAAC's desire to win "fifth freedom" rights of flight through Hong Kong. This involves the right to drop off and pick up passengers in Hong Kong on flights starting or finishing in Peking and operating to third countries like Australia, the US, or Singapore.

Clearly demands from CAAC for more scheduled flights into Hong Kong for the country's regional carriers will be met by counter demands for more scheduled services into the mainland for Cathay and Dragonair. It is thought that delays in Peking over setting dates for the latest round of air traffic talks is linked in part to difficulties in reaching agreement between CAAC and the regional carriers on the package of demands to be presented to the British negotiating team.

A curfew at Hong Kong's Kaitak airport bans afternoon flight movements by charter operators

The call for fifth freedom rights was initially made last year, caught British negotiators off guard, and played a large part in the talks grinding to a halt. Hong Kong's position appears to be that a deal on fifth freedom rights is just a matter of horse trading – but this is probably an oversimplification.

Apart from the fact that such "horse trading" would be horrendously complex, British negotiators must be wary of fifth freedom requests because under the terms of the Sino-British Joint Declaration on Hong Kong's post-1997 future, such routes would after 1997 be under the direct control of Peking.

Concentration on air services into China may seem to distort Hong Kong's wider aviation picture, since they accounted for just 12 per cent of the 74,000 flights into and out of the territory last year. Certainly for Cathay, which has built up a worldwide network of highly lucrative routes over the past six years, services to Peking and Shanghai are hardly critical to profitability.

David Dodwell

Telecommunications

An enviable monopoly

"WITH FEWER than three million telephones in use in China, and over two million in use here in Hong Kong, you don't have to be a soothsayer to see enormous potential for growth in telephone traffic between Hong Kong and China," says Mr Mike Gale, managing director of Cable & Wireless' local subsidiary, Hongkong Telecommunications.

Telephone traffic between mainland China and Hong Kong has leapt from fewer than one million calls a year in 1984 to more than 19m calls last year. Hong Kong last year accounted for over 80 per cent of China'a international calls, a remarkable number in view of the fact that the territory is not used by China as a "gateway" for calls to other countries overseas. Only Peking and Shanghai are permitted to act as gateways.

This volnme of traffic is accounted for hy the pace at which Hong Kong manufacturers have set np joint ventures and processing arrangements with partners in mainland China, and by the scale on which international companies use Hong Kong as their springboard for business inside mainland China.

With growth expected to contimne at similar breakneck speed for the foreseeable future, it is easy to see why Cable & Wireless' monopoly of international telephone traffic into and out of the territory is one to be jealous of.

Earnings from Hong Kong operations generated almost 80 per cent of Cable & Wireless' profits in 1987, and can be expected to generate similar proportions in the years ahead.

The group's international telecommunications monopoly is enshrined in a franchise that does not expire until 2006 – nine years after China regains sovereignty over Hong Kong. While it is unreasonable to assume that Peking would revoke such a franchise, it is hardly surprising that Cable & Wireless have taken careful moves to protect its future interests.

In a move that could be seen as more cosmetic and psychological than of material significance, the group has broadened its shareholder base in Hong Kong – aware that as 1997 approaches, it would be ill advised to be seen as an enterprise still controlled by the territory's outgoing colonial masters.

While Hongkong Telecommunications is – and will remain – firmly controlled by Cable & Wireless in the UK, plans are in train for at least 20 per cent of Telecom's shares to be in the hands of the Hong Kong investing public by the end of this year.

Of equal psychological importance has been the group's success last month in drawing the Guangdong Posts and Telecommunications Bureau (PTB) into HK Telecom as an investor. This unprecedented investment by a mainland utility is negligible in cash terms – accounting for a bare 0.1 per cent of HK Telecom's issued share capital – hnt of immeasurable importance as a mark of mainland commitment to the group's future role in the development of China's telecommunications infrastructure.

A more substantial investment – both by the Guangdong PTB and by the China International Trust and Investment Corporation (Citic) – cannot be ruled out.

Less cosmetic has heen the consolidation of close business links between Cable & Wireless and mainland China, mostly through Hong Kong.

Over an eight year period, the UK group has played a major role in setting np five major telecommunications projects in China – all but one of them in Guangdong province adjoining Hong Kong.

China's first microwave network – a 1,000km grid spanning the entire length of Guangdong – was completed two years ago, shortly after Shenda, a joint venture company with Cable & Wireless as a partner that provides the special economic zone of Shenzhen with a state of the art digital exchange system, came into operation.

Work is almost complete on a 20,000-line optical fibre cable link between Gnangzhou (Canton), the capital of Guangdong province, and Hong Kong. Also in the Guangzhon area, a "Unitacs" cell network has been in operation enabling the use of mobile telephones in the Pearl River Delta area.

The net result of these projects – in which Cable & Wireless has normally acted as "honest broker", advising on the best equipment to buy, and how to make sure it is all compatible rather than providing any hardware of its own – has not only put Guangdong light years ahead of the rest of China in telecommunications terms, but has given the UK group a close working relationship with the telecommunications authorities both in Guangdong and in Peking.

This explains in part the recent success in setting up a joint venture with Citic, and Hutchison Telecommunications (normally a fierce competitor) to launch a domestic telecommunications satellite over China.

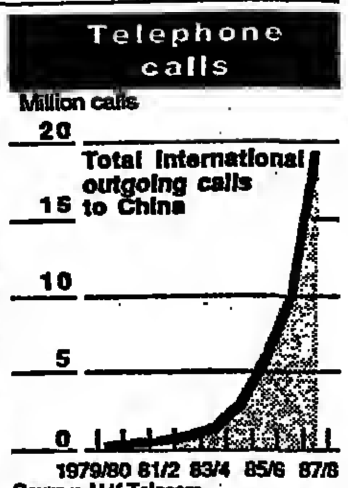
The new satellite, to be called Asiasat, will be the first in operation over China, and will provide television and telephone links to the most remote parts of the Chinese mainland. It is due to be launched in 1990 on a Chinese "Long March" rocket.

Further links between China and Hong Kong are also being discussed with Cable & Wireless – most important of which is perhaps the possibility of the Guangdong PTB buying a dedicated channel on Cable & Wireless' global highway cable link to Japan.

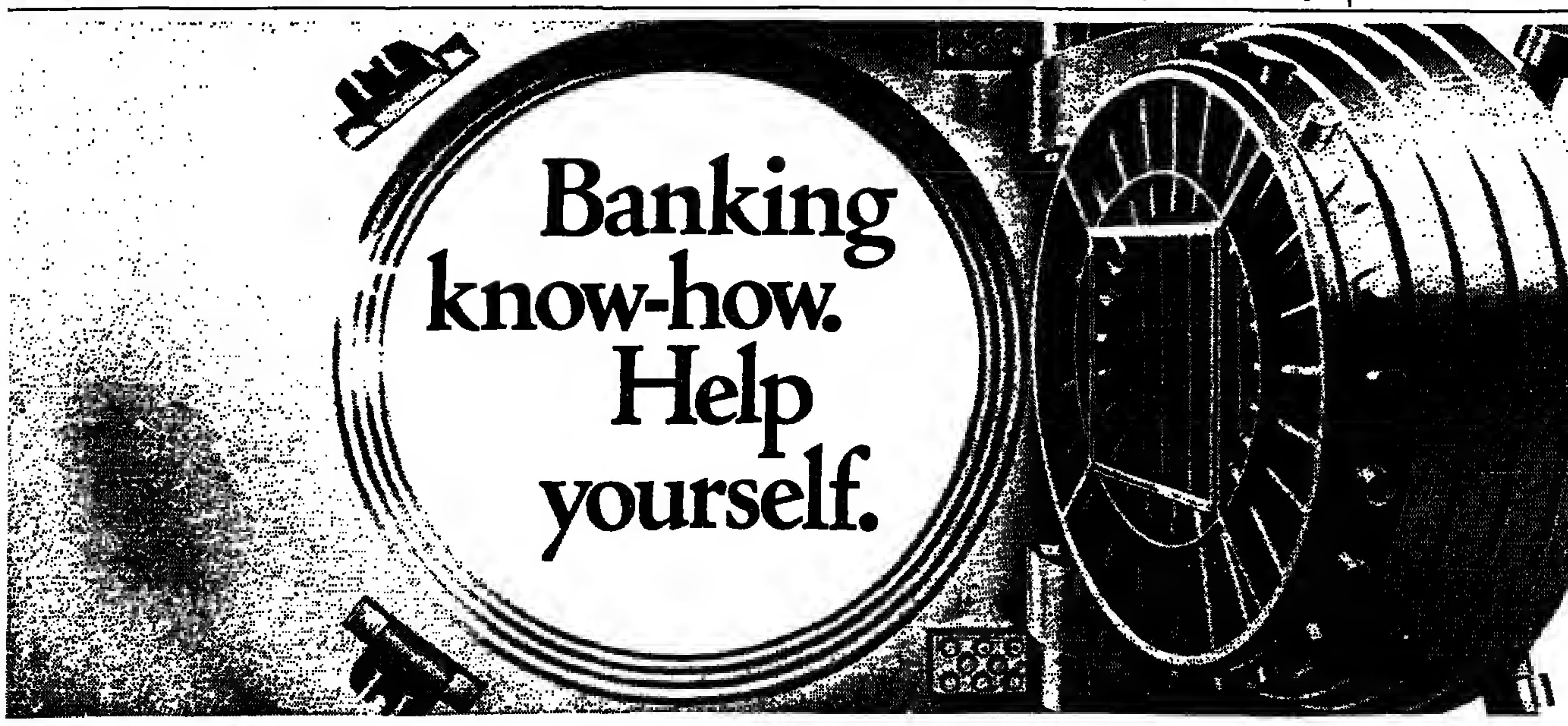
Such a development would be an important step towards Hong Kong becoming a gateway for international telecommunications traffic to and from the mainland. Peking's sensitivity over the sovereignty aspects of telecommunications may mean that such a gateway role will never be formalised until after 1997, but all of these developments suggest that Cable & Wireless may be well placed to play an important role in the evolution of China's telecommunications well into the 21st century.

This may be a source of jealousy for competitors, bnt for Hong Kong in general, it is likely to be no bad thing. It will reinforce the city's role as Sonth China's main telecommunications hub, and will give Cable & Wireless a vested interest in keeping the territory at the forefront of telecommunications developments into the next century.

David Dodwell



Source: H K Telecom



The securities market needs to decide on its style

Davison report details programme of reform

A BOOM-to-bust casino where speculators take their chances, or a maturing regional capital market attracting a rising tide of new investors from around the world – Hong Kong's securities market has been told that in the next few months it has to choose which it wants to be.

Any remaining hopes in the colony that the implications of last October's stock and futures markets' crash might be quietly swept aside were exploded earlier this month with the publication of an independent report on the debacle.

The stock exchange, the government, local brokers, international securities houses and genteel merchant bankers were all allocated varying shares of blame for the events that led to a four-day closure of the stock market and forced a HK$2bn rescue of the futures market.

Just as importantly, Mr Ian Hay Davison, the report's author, has laid out what he believes are the essential ingredients of a programme to restore the markets' tattered reputation.

Even then he appears far from certain if the Futures Exchange, at present barely ticking over and gradually running out of cash, can or should be saved.

The report, which advocates a new regulatory framework for the industry and an overhaul of the stock markets' management structure, has elicited supportive noises and promises of action from the government. Mr Piers Jacobs, the financial secretary, insists that he is anxious for implementation in "months not years".

It has also, however, attracted sharp criticism from powerful members of the local broking industry and uncovered considerable apathy within sections of the international community. Mr Davison himself admits that there is a "grave danger" that bureaucratic inertia and powerful vested interests may deal a fatal blow to some of the key recommendations.

'Hong Kong needs to attract stable international investment funds, rather than simply hot speculative funds, if it is to continue to prosper'

The litmus test, he believes, will be the speed or otherwise with which the Government acts to implement the two central planks of the report: the transformation of the existing Securities Commission into a powerful, independent body and the reshaping of the stock exchange to create a more broadly-based council and a strong management structure independent of the members.

A whole string of other changes – ranging from longer and computerised settlement procedures to arrangements to allow short selling of stocks – could then follow over the next year or so.

The crux of Mr Davision's judgement is that the local brokers, led by Mr Ronald Li, who were running the exchange until October, operated it in their own vested interests rather than for the benefit of the wider community.

It is not a judgement, however, that is universally shared. Notwithstanding the charges of alleged corruption now facing him, Mr Li remains a (somewhat-feared) hero in the local community.

His success in welding the four former exchanges into one in 1986, the explosion of turnover in the unified market unp until October, and the immense profits to be made before the crash also wins him a uumber of admirers among international brokers.

That is not to say that nothing has changed since last autumn. Mr Robert Fell, brought in as the exchange's temporary chief executive to clear up the initial mess, has already implemented a number of reforms.

The exchange's listing department, has been reshaped and expanded, while it has lost the power over the pricing of new issues which was the source of many of the pre-October abuses. Disclosure rules have been tightened, new restrictions placed on warrant issues, and a new compliance department is being set up to oversee the exchange's 760 members.

More prosaically, but illustrative of the sorry state of affairs pre-October, Mr Fell has established an accountiog system which for the first time will track the exchange's own income and expenditure.

The Futures Market, meanwhile, has introduced uew, tougher, capital requirements, tighter compliance rules, and more stringent margins and position limits in an effort to reassure members and investors that a repeat of October's large-scale defaults is impossible. It has also been seeking, so far unsuccessfully, to secure a substantial increase in the funds available to the exchange's Guarantee Corporation.

Overall the changes in both markets have attracted some criticism from local brokers but have by and large been accepted, perhaps because the outstanding charges against Mr Li bave deprived them of a charismatic leader.

It is far less clear, however, that they will accept meekly recommendations that would effectively deprive the local community of its control of the exchange. The principle that only individual share-holding members are eligible to vote in the exchange elections - which has kept international brokers off the management board - is jealously-guarded.

Mr Robert Yue, the chairman of the present management committee, is adamant that no member of the exchange should be eligible to join the committee unless he or she has put up money as an individual to buy a seat. More generally, he adds that: "There is nothing wrong at the moment except for a few small things. I cannot see how people from outside know how to run it [the market] better."

Mr Yue does little to disguise a general undercurrent of resentment among domestic brokers against the outsiders, or "gweilos" as they are known locally.

Not everyone in the international community is as convinced that the choice is as stark as that painted by Mr Davison. Sitting in the offices and speaking on the record, European and US brokers are almost nnanimous in the view that the market ueeds "cleaning up". Relaxing over a drink and commeoting off the record many of the same people are sceptical about how much more change is necessary or desirable.

Regulation has to take account of the special characteristics of the Hong Kong market, where most companies are run by their owners, with perhaps only 25 per cent of the shareholding in public hands. That makes the line between, for example, insider and honest trading distinctly blurred.

There is also a view that international investors do not look to Hong Kong for staid, steady, returns but are attracted by the opportunity of geoerating huge profits from marginal funds. That should not be stifled by excessive regulation. The price volatility which flows from Hong Kong's hothouse atmosphere of gossip and intrigue has allowed plenty of foreign investors to double or triple their investment.

"Hong Kong has always been a punt, a place to look for performance ... Things went too far last year but most of the Davison's suggestions are irrelevant," comments the managing director of one large international securities company before adding: "But I don't want to be seen as rocking the boat so don't mentioo me by name".

Others are less sanguine that that style of market will be able to withstand the competition of other regional centres into the 1990s. According to Mr Alexander Thomson, managing Director of Goldman Sachs (Asia), an unreformed Hong Kong would run the risk of becoming marginalised. Hong Kong needs to attract stable international investment funds, rather than simply hot speculative funds, if it is to contiune to prosper, be says.

That view is ecboed by Mr Francis Yeun, the managing director of Citicorp Scrimgeour Vickers, the man wanted by the government to take over as the permanent chief executive executive of the exchange.

Mr Yuen plans to make his decision on the offer in the next mooth or so and admits that he is intrigued by the challenge. He insists, however, tbat: "Unless the [Davison] changes are made I do not want the job."

Whether or not he is installed in his new office come September may well provide the best clue to just how far the government is willing to match its words with actions.

Philip Stephens

Main recommendations

1. A new, independent, statutory body, funded by the markets, should replace the existing Securities Commission, which is under direct control of the market. The new Commission would have the role of ensuring that the Stock and Futures Exchanges did an effective job of self-regulation.

2. The internal constitution of the Stock Exchange should be revamped to give a voice on its governing body to the growing number of corporate members, and to independent lay members. The revamp should establisb an effective, relatively indepeudent management structure. The Futures Exchange also ueeds a uew professional management.

3. The report recommends that the government pass legislation to empower the Securities Commissiou to ameud the articles of the Stock Exchange so that such structural changes can be speedily implemented.

4. If the Futures Exchange is to continue in operatioo it should set up an improved risk management system and a guarantee backed by members of the Exchange.

5. The existing 24-hour settlement system for equity trading should be replaced by a three-day period with computerised settlement procedures.

Banking

Giants of the mainland stir

THE LAST two years could hardly have been better for Hong Kong's overcrowded banking industry.

Memories of the seven bank failures during the dark days of 1983 to 1985 have receded as a booming economy has fuelled buoyant profits growth. The fact that Hong Kong now boasts one bank branch for every 3,600 people has not deterred a further steady flow of foreign institutions into the colony.

Economic growth of over 13 per cent, a renewed surge in property prices and an explosion in trade volumes, particularly with China, provided the recipe for increases in profits averaging 20 to 30 per cent last year. The expectation is for a similarly strong performance in 1988, with a slowing economy beginning to take effect only next year.

That combination of buoyant domestic demand and of Hong Kong's re-emergence as an entrepôt for trade with a modernising China has provided the opportunity for the colony's long-sleeping giants – the banks controlled by the People's Republic – to flex their muscles.

As Hong Kong's manufacturers have pushed ahead the process of economic integration by seeking land and workers in mainland China, so the 15 banks linked to Peking have decided that they have a more prominent role to play in Hong Kong.

The 13 so-called sister banks in the Bank of China group and the two – Ka Wah and Union Bank – operating outside the group have upgraded their retail banking services and have moved aggressively into the domestic mortgage market. In parallel, they are rapidly developing their skills in merchant banking, in foreign exchange and bullion trading and in loan syndication.

If there is an irony in communist-controlled banks seeking to attract customers by installing screens with real-time foreign exchange and stock price quotes in the windows of every branch, it apparently escapes them.

Senior officials at the PRC banks are anxious to downplay any suggestion that the eventual aim might be to dislodge the Hongkong and Shanghai Bank from its longstanding pre-eminence in the local market. With an acute sense of the need to preserve confidence as 1997 looms nearer, they insist that their primarily goal is to increase their own contribution to Hong Kong's prosperity.

There is also a concern to dispel the notion that their principal role is as a conduit for the transfer of funds from Hong Kong to the mainland.

Mr Wu Kuowah, the general manager of the BOC group's regional office, is keen to point out that although it does channel resources to China, more than 70 per cent of the group's outstanding loans and advances at the end of 1987 were for clients in Hong Kong. What is less clear, however, is the extent to which those loans were used to finance projects in China.

He also quotes from the draft Basic Law recently presented by the Peking Government as the basis for its administration post-1997. He notes that it pledges that the authorities shall "create conditions and take measures for the maintenance of the status of the Hong Kong Special Administrative Region as an international financial centre".

Within that framework the sister banks are out to match the standards offered by the best of the around 160 local and international banks in the colony.

Their efforts are reflected in a

Continued on page 10

Mr Anthony Nicolle, the Commissioner of Banking

Prices and rents stand substantially above the pre-crash peak

Property market fundamentals are irresistible

DESPITE last October's cataclysmic stock market crash, a rising tide of politically motivated emigration and broad concerns over worldwide economic recession, Hong Kong's notoriously volatile property market has so far held firm.

The near meltdown on world financial markets last year did temporarily stall the market's relentlesa upward march, but prices and rents have since recovered from an approximate 10-15 per cent fall and now stand substantially above the pre-crash peak.

The market rapidly regained its poise because Hong Kong's thriving economy has produced irresistible property market fundamentals. Yields of seven to nine per cent on prime commercial properties dwarf those available in Tokyo or Singapore, and the prime interest rate is a still-reasonable 7.5 per cent.

Two consecutive years of donble-digit economic growth have produced a demand-driven market that analysts say bears little resemblance to the rabid, speculative boom of the early 1980s.

Foreign companies have flocked to the territory. Some have moved parts of their regional operations out of the prohibitively expensive Tokyo market, and many more are setting up shop with the aim of capitalising on China's modernisation programme. Companies already based in the territory continue to expand fast.

The overall vacancy level in the office sector was consequently just 6.25 per cent at the end of last year, while in the core central district it now stands at a record low 0.3 per cent.

More than 8m sq ft of commercial space is due to enter the market during the next four years, but real estate consultant Richard Ellis projects that an average take up of approximately 2m sq ft a year will keep the market in rough equilibrium through that entire period.

Rents and capital values in the commercial sector have moved steadily higher. Analysts estimate a 10 to 15 per cent increase so far this year, following last year's 17 to 20 per cent growth. Property consultants estimate a further 10 to 15 per cent rise this year.

These robust fundamentals, together with the rapidly depreciating US dollar-linked local currency, have during the past two years attracted huge sums of foreign money into real estate.

Richard Ellis says foreignera injected some HK$ 20bn into Hong Kong between the begining of 1986 and the end of last year, representing roughly half of the total investment in major properties *during that* period.

The Japanese led the field, buying HK$8bn worth of property. investors from Australia and New Zealand spent HK$5hn, while from sonth-east Asia HK$1bn to HK$2bn was pumped into the territory.

Most significant, however, is the HK5bn to HK$6bn investment emanating from China. While Japanese investors such as EIE Development'a Harunori Takahashi and Australia's Alan Bond grabbed the headlines with their spectacular hig-dollar acquisitions, a steady stream of money from China has been filtering into commercial and residential property.

"It's a lot of bits and pieces, but it adds up to a substantial investment," said Mr Dominic Leung, a partner at Richard Ellis.

The mainland investors are predominantly from Guangdong province, due to proximity and increasing business ties with the territory. But there is also substantial interest from Peking and from south-eastern coastal cities north of Guangdong, analysts say.

Mainland investments have traditionally focused on second-line commercial and residential property, hnt more recently money has moved into prime quality investments, especially in the hotel sector.

China Merchants' Steam Navigation, and China Travel Service have both invested in three to four-star hotels, and several other mainland concerns have taken equity stakes in hotel projects.

In the commercial sector, Bank of China's spectacular headquarters building is rapidly emerging as a symbol of China'a involvement in Hong Kong. Costing HK$1bn, the 70-storey structure will be ready for occupation in July next year.

Though anxiety over Hong Kong's post-1997 future as a part of China is causing increasing numbers of people to emigrate, property investors appear blasé towards possible future political uncertainty.

"When people are making money, political factors recede," said Mr Alan Hill, a director of Jones Lang Wootton, the prop*erty agent.*

The attractiveness of local property nevertheless owes much to China-related considerations. The cost of occupying prime commercial office space is substantially cheaper in Hong Kong, at some HK$39.20 per square foot a month, than in any other major financial centre, according to a recent survey carried out hy property giant Hongkong Land.

Analysts view this as a political discount: "Investors have to be prepared to take a high risk, and because of that yields have to be high to attract people here," said Richard Ellis' Mr Leung.

For the time being, concerns are more sharply focused on the lofty height the market has risen to during the past two years, and on the possihility that interest rates will move higher. The prime interest rate now stands at 7.5 per cent, but a rise to 9.5 to 10 per cent would prohahly soher current bullish sentiments.

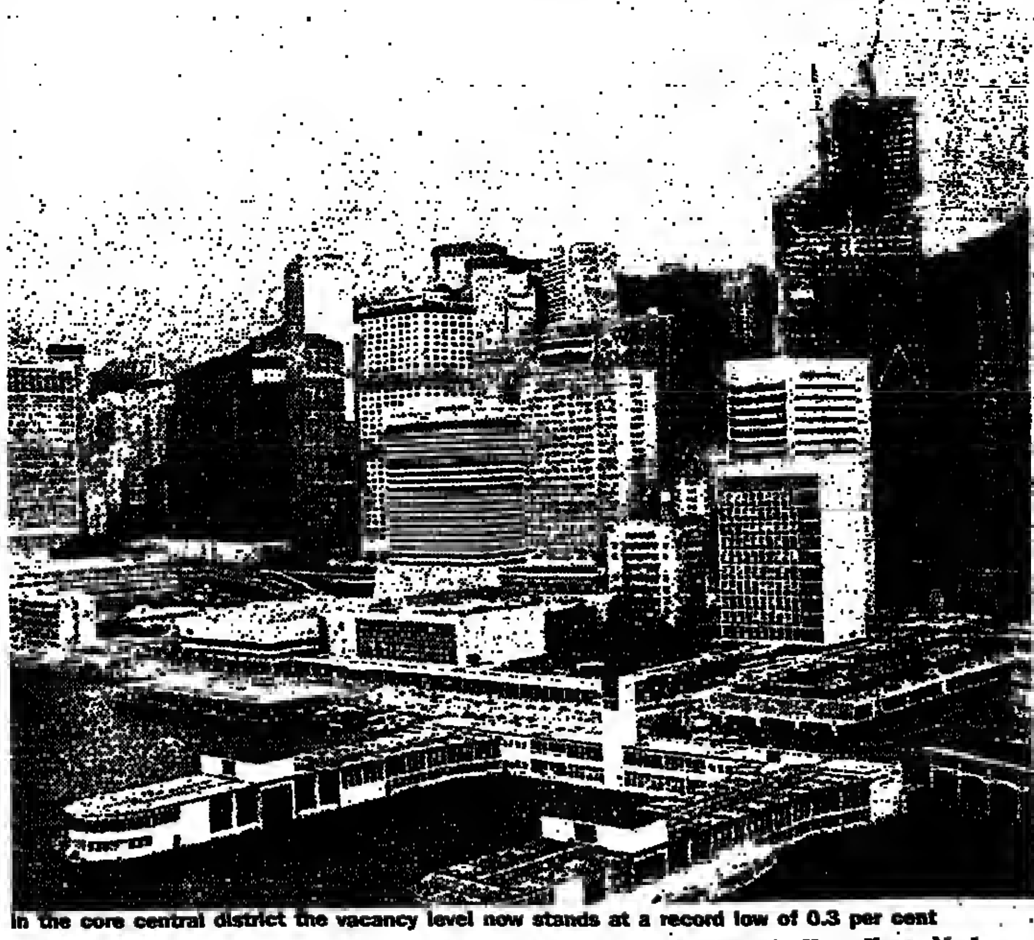
In the residental and industrial sectors analysts note increasing caution. "Prices have gone up so fast, and in certain areas they have reached levels of the boom of 1981 and 1983. People are worried that another slump is going to come," said one property consultant, adding that he considers a downturn unlikely.

Though prices of indnstrial property remain strong, investors are concerned that recession in the US could trigger a sharp drop in demand. Equally, they fear the migration of Hong Kong manufacturers to Guangdong province could depress the market in the medium to long term.

But it is the growing integration of Hong Kong and China that could in future underpin the territory's property market.

Referring to China's investments in Hong Kong, Mr Leung said: "It is a vote of confidence from the mainland. They are saying they will continue to do business in Hong Kong."

Kevin Hamlin



In the core central district the vacancy level now stands at a record low of 0.3 per cent

Bank of China

To be world's sixth tallest

THERE is no stronger symbol of China's increasing involvement in Hong Kong than the Bank of China's rapidly emerging new headquarters building (pictured above), a futuristic 70-storey construction that will dwarf the base of the nearby Hongkong & Shanghai Bank.

Together with the recently completed Bond Centre and Swire Properties' Pacific Place, the Bank of China's new headquarters is helping to push back the *boundaries of what has tradi*tionally been defined as the central business district.

The chronic shortage of sites for new buildings in core central, and demand for space, has enabled the bank's marketing agents to forecast the HK$1hn monolith will be pre-leased six months before it is ready for occupation July next year.

The Bank of China (BoC) is to occupy floors 1 to 19, and 67 to 70 – about 45 per cent of total space. By mid-May, another 18 floors were pre-leased, with National Australia Bank confirmed as the first banking institution to take up space. NAB said it plans to increase its business with China, and considered the BoC building a perfect location to build ties with mainland concerns.

The marketing agents say inquiries for space have flooded in, from overseas companies interested in entering Hong Kong for the first time, and from companies now located in core central needing more space. With vacancy levels at a record low 0.3 per cent in core central, expansion often means relocation.

While the agents are giving nothing away on rentals to be paid by tenants signed so far, space in the BoC building is substantially cheaper than in core central. Analysts say rents charged by BoC are in the region of HK$ 23 per square foot, compared with well over HK$ 30 in core central.

Companies are being attracted to the building because of its prestige – stretching some 315 metres into the sky, it will be the highest building in Hong Kong and the sixth tallest in the world – the spectacular views it will command from the 30th floor and above, and because a wide range *of space options is provided.*

The building's angular shape means floor areas vary form 3,000 square feet to 8,500 square feet.

Additional attrihutes include the fact it will have direct links with all major buildings in its vicinity, 270 car-parking spaces, and 45 lifts serving low, medium and sky rise sections.

Celebrated American-Chinese architect, IM Pei, who was born in Canton, designed the building, and said its structure is "symbolic of the modernisation efforts now undertaken by China."

BoC acquired the 6,700 square metre site from Government at the peak of the 1982 property boom at the "friendship price" of HK$1bn – a mere third of what Hongkong Land had to pay for its Exchange Square site at around the same time.

Construction work, led by Japan's Kumagai Gumi, is due to reach the 60th floor this month, with the building "peaking out" in September.

As with many of Mr Pei's buildings, BoC's new headquarters will feature a 15-storey atrium. The tower is to be sheathed in metallic aluminium and silver heat-reflective glass. The banking hall will be clad in two shades of grey granite.

Kevin Hamlin

Mainland banking giants awake

Continued from page 9

sharp rise in both deposits and loans during 1987, an increase which comfortably outpaced the industry average. The 15 PRC banks saw their deposits rise by 36 per cent over 1986 to stand at HK$139bn, while their assets jumped by 38 per cent to HK$225bn.

The peculiarities of Japan's tax and banking regulations have meant that Hong Kong offices of that country's banks have seen much more spectacular growth in assets. But the rise shown in the chart reflects the recycling of funds to and from Tokyo more than a heady expansion in business in Hong Kong.

In contrast, the strategy of the BOC group seems very much to build-on their longstanding deposit base by upgrading and developing other banking services and by emulating the marketing skills of their more experienced rivals. They recruited an additional 1,000 staff in 1987, an increase of 11 per cent compared to the industry-wide average rise of 4 per cent.

With over 270 branches between them the different banks in the group are capitalising on their ability to share expertise and to avoid direct competition in the development of new services.

A common computer system allows Po Sang Bank to operate as the group's main player in the foreign exchange markets, with other BOC members acting as its agent in branch transactions. Bank of Communications has established itself as the front-runner in the group's participation in syndicated loans. Similarly, Nanyang Commercial Bank has set up a credit card company which serves as a processing centre for cards issued by the other sister banks. Most also have a shareholding in a securities broking operation established by Sin Hua Savings and Commercial Bank and Po Sang.

Nanyang, which along with Bank of Communications, is among the most aggressive of the mainland institutions, has separately set up a unit trust joint venture with UK broker James Capel. "Their experience and our customer base make a very good combination," comments Nanyang's chairman Mr Shn Cih-uang.

Though formally outside the group, Ka Wah and Union also keep in close contact with the regional headquarters in Hong Kong. Mr Jin Deqin, the chairman of Kah Wa, was employed formerly as a senior executive in the Bank of China.

The decision by mainland banks to adopt a higher profile has not left Peking's rivals standing still. The extraordinary pace of economic growth and of trade with China has provided handsome profits for all and acted as a continuing magnet for foreign institutions. Three Swedish banks and the Bank of Ireland are among the most recent entrants to the colony, while Japan has upgraded a number of its deposit-taking institutions (DTCs) to full bank status.

Mr William Purves, the chairman of the Hongkong Bank, says that he has great respect for the growing sophistication of his PRC banks rivals but "I don't think anyone is sitting in fear and trembling".

As yet there has not even been a hint of any challenge to his bank's role as the principal note issuer (Standard Chartered is the other) nor to its quasi central bank operations in the money and foreign exchange markets on behalf of the Government.

Mr Purves also insists his bank will not simply stand by and see its technological lead over the sister banks eroded. With the rationalisation of regional operations which followed the purchase of a share in Midland now more or less complete, he is looking for new technological challenges. An analysis of the potential for a global settlements system is high on the list.

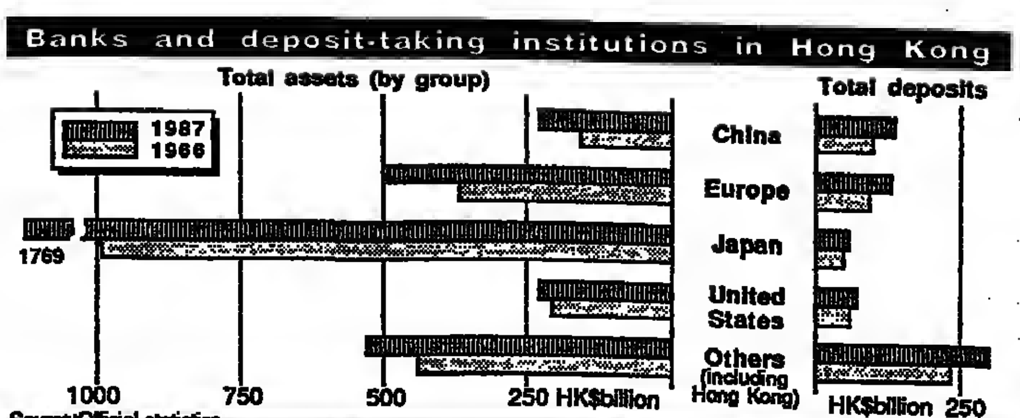
At the colony's Banking Commission, the return to healthy profitability among most of the banks has provided the opportunity further to tighten supervision. The capital adequacy rules enacted by the Basle committee of central bankers are to be applied in Hong Kong from September. Mr Anthony Nicolle, the Commissioner of Banking, has also introduced new provisioning requirements for third world loans based on the Bank of England's matrix.

The moves, along with a generally firmer approach to overall compliance, have brought a few grumbles, particularly among Japanese banks and DTC's, but Mr Nicolle seems determined to push the process even further.

Several banks and DTCs will be asked to meet capital ratios well above those laid down as the minimum in the Basle agreement, whila Mr Nicolle would eventually like to see the ceilings imposed by that accord removed.

The collapse in last October's stock market crash of two securities companies owned by banks has also prompted him to take a critical look at the links between the two. The worldwide trend towards consolidated supervision is not going to pass by Hong Kong.

Philip Stephens



The construction industry is dependent on illegal immigrants

Boom hit by labour shortage

THE DEVELOPMENT momentum generated by two years of double-digit economic growth should have cheered Hong Kong's construction industry, but instead it is struggling to cope with a chronic labour shortage.

The buoyant economy has spurred a huge building boom in both the private and public sectors. The strong property market has prompted increased building activity in the commercial, hotel, industrial and retail sectors, and Hong Kong's rapidly growing trade has necessitated the development of several large infrastructure projects. Unemployment remains negligible.

The construction industry only recently emerged from the doldrums caused by 1983's property market slump, but while order books are now brimming full, construction companies are preoccupied with soaring wage costs, escalating staff turnovers, and eroded margins.

The industry estimates it is short of 10,000 to 15,000 men, representing some 20 per cent of its total 70,500 workforce. But appeals to the government to allow foreign labourers into Hong Kong on a contract basis have so far been abruptly rejected. The government says it would depress the wages of local workers, and stir a hornet's nest of social problems.

A recent police crackdown on illegal immigrants (IIs) from China, on whom the construction industry heavily relies, indicates the government may, in fact, be toughening its stance.

In the past, IIs were simply repatriated to China when caught. But in May, 67 mainland Chinese caught working on construction sites were tried and sentenced to jail terms of 15 to 18 months.

"Illegal as it all is, the industry is very dependent on these people," said Mr Gerrit de Nys, managing director of Shui On, a big local construction company. "The action the government is taking is going to increase our problems even further."

Construction companies say payrolls have surged 30 to 60 per cent during the past year, while staff turnovers have soared to 35 per cent annually. "You still have to do the work so you have to get the people. It's a continuing upward spiral. We pay more tomorrow and the next day the guy next door pays more to get them back," said Mr de Nys.

Rapidly escalating costs are also making it increasingly difficult for companies to know at what price they should bid for projects. They are thus playing safe by building in higher margins.

The problems facing the construction industry have also put the government in a quandary. It awarded public works contracts with a total value of HK$9.5bn last year, and has already been stung by rising costs.

The Housing Authority's tender price index surged 32.6 per cent last year, while its labour and materials costs indices both increased about 27 per cent. Last November, the authority forecast capital expenditure of HK$4.7bn for the financial year through March 1989, but already says that will need to be revised upwards.

The authority aimed to complete 40,000 units of accommodation last year, but actually achieved only 24,000. The shortfall was due primarily to the labour shortage, according to Mr Derek Messling, deputy director, construction. Between 65,000 and 70,000 units were targetted for completion this year, but it is estimated only 60,000 can be built.

Urging government to address the labour problem, Mr John Loo, chairman of the Building Contractors' Association, said: "Contractors are suffering most, but ultimately the people of Hong Kong will suffer too. They will pay more for their buildings, they will get them late, and they will be of lower quality."

Mr Loo, like many construction companies, recognises government has a difficult decision. While there is no doubt labour unions would strongly oppose any attempt to import labour, Mr James Blake, business development director of Paul Y Construction, another major local company, said Hong Kong's introspective workers would not take kindly to foreign workers. "We find it impossible to mix Hong Kong workers and workers from other parts of Asia," he said.

Hong Kong's ability to absorb more people is another problem. Its infrastructure is already stretched to the limit by the territory's 5.6 million people.

"If you look at the construction sector in isolation, yes, there is a case for importing labour. If you look at it from the position of society as a whole, we simply don't have the space and infrastructure to cope with a large influx of labour," said Mr Vincent Cheng, chief economist at the Hongkong and Shanghai Bank.

One possible solution is the importing of labourers from nearby Guangdong province. These could commute to Hong Kong daily, thus minimising pressure on the territory's infrastructure.

Construction companies say development momentum will not abate for up to two years, and can see no other option. Said the Housing Authority's Mr Messling: "We can sweat it out on the basis that perhaps market forces will by 1989 or 1990 see a cooling off, or we have to adjust our programmes to be more in line with the industry's capacity. That is not something we would contemplate very casually."

Kevin Hamlin

Customs complex under construction on the highway between Hong Kong and mainland China

English language

Teaching intensified

The Hong Kong University has made a highly controversial decision to add an English language foundation year to its degree courses

MORE HONG Kongers than ever before can today wrap their tongues around at least some English language phrases, but business leaders and academics share growing concern that in recent years mastery of the "international language of business" has slumped.

They fear that an erosion of English language standards will undermine Hong Kong's unique role as a bridge between the western world and China and its competitiveness as an international trade and finance centre.

Language is a politically sensitive and emotional issue in the territory, where 98 per cent of the population speak Cantonese. While recognising that a command of English is often the key to career success, some Hong Kongers still consider it unpatriotic to use English when Cantonese is a viable alternative. With Peking's resumption of sovereignty just nine years away, many also feel that fluency in Mandarin is just as high a priority as fluency in English.

Yet even China has stressed the importance of the English language to Hong Kong's future prosperity. It is against this volatile background that the heated debate on English language standards has been fuelled during the past year.

The Hong Kong University became so concerned by falling standards of English that it made a highly controversial decision to add a foundation year to its three-year degree courses. Though acknowledging that it is difficult to demonstrate scientifically that standards have fallen, Dr Wang Gungwu, HKU's vice-chancellor, maintains there is little doubt the average standard of English of undergraduates is poorer today than it was a few years ago.

The university's language centre, originally set up to teach additional languages, has rapidly become a centre for remedial English language tuition. Roughly half of all undergraduates need help with their English, Dr Wang says.

External examiners also increasingly complain that students, hampered by an imperfect command of English, find difficulty communicating effectively what they know, Dr Wang adds.

The government does not agree that standards have fallen. "Since the world began people have been complaining that standards are falling; that things are getting worse. The objective evidence for this is rather equivocal," said Mr Chris Godwin, principal assistant secretary of education and manpower.

Mr Verner Bickley, director of the Institute for Language in Education (ILE), a body set up by the government in 1982 to improve the standards of teaching Chinese and English, says criticism of standards rolls off the tongue very easily, but he asks: "What is the standard we are talking about? How do you make the comparison?"

He concedes, however, that "perhaps it is true the English of many people is inadequate for the present situation."

Two consecutive years of double-digit economic growth have brought increasing numbers of foreign companies to Hong Kong, while development momentum has created a severe labour shortage.

All this has caused a drain on the pool of available labour, and a concomitant surge in demand for those who can use English competently. The government thinks business should do more to help improve standards further.

"The amount of effort that big corporations put into language training programmes is really very poor. They expect everything to have been done in the school system," said Mr Godwin.

The government feels that this is unrealistic. The school system can provide few meaningful incentives for students to use English because, as Mr Bickley says, they "live in a world of Cantonese."

The education system provides the basic framework, and if "big businesses put more effort into their own internal language programmes, which are specifically geared to their needs, they would find they could bring on their recruits in leaps and bounds," said Mr Godwin.

The ILE estimates only 20 companies in Hong Kong conduct substantial in-house English language training programmes. They include Cathay Pacific Airways, Cable & Wireless, several hotels and the Hongkong & Shanghai Bank.

The need to maintain and improve standards of English has become a personal hobby-horse of Mr William Purves, chairman of HK Bank. Perceiving that standards were at risk, he put his personal weight behind the bank's decision to sponsor radio and television programmes to teach English through pop songs.

"Whatever the standards are, HK Bank thinks they should be better. We wanted to take action before standards had slipped too much," said spokesman Mr George Cardona. The English language programmes, costing HK$1.5m, are estimated to attract an audience of 1.5 million.

Those convinced that standards have fallen generally point to the 1978 decision to usher in universal compulsory secondary education as a primary cause. Though a lot of money was pumped into the exercise, critics say it was a hasty decision made with little planning. The result, they claim, has been a dilution of the "educational experience".

Government maintains that it is pouring unprecedented resources into ensuring that standards of English are maintained. Under a pilot programme that began late last year, 84 expatriate teachers of English as a foreign language were recruited to test the effectiveness of using more native teachers.

The scheme, costing HK$53m, will last for two years, and will be followed by a detailed evaluation of its impact. If successful, it is expected that the programme will be expanded. The ILE says that up to 1,000 native teachers could be needed to make a comprehensive impact.

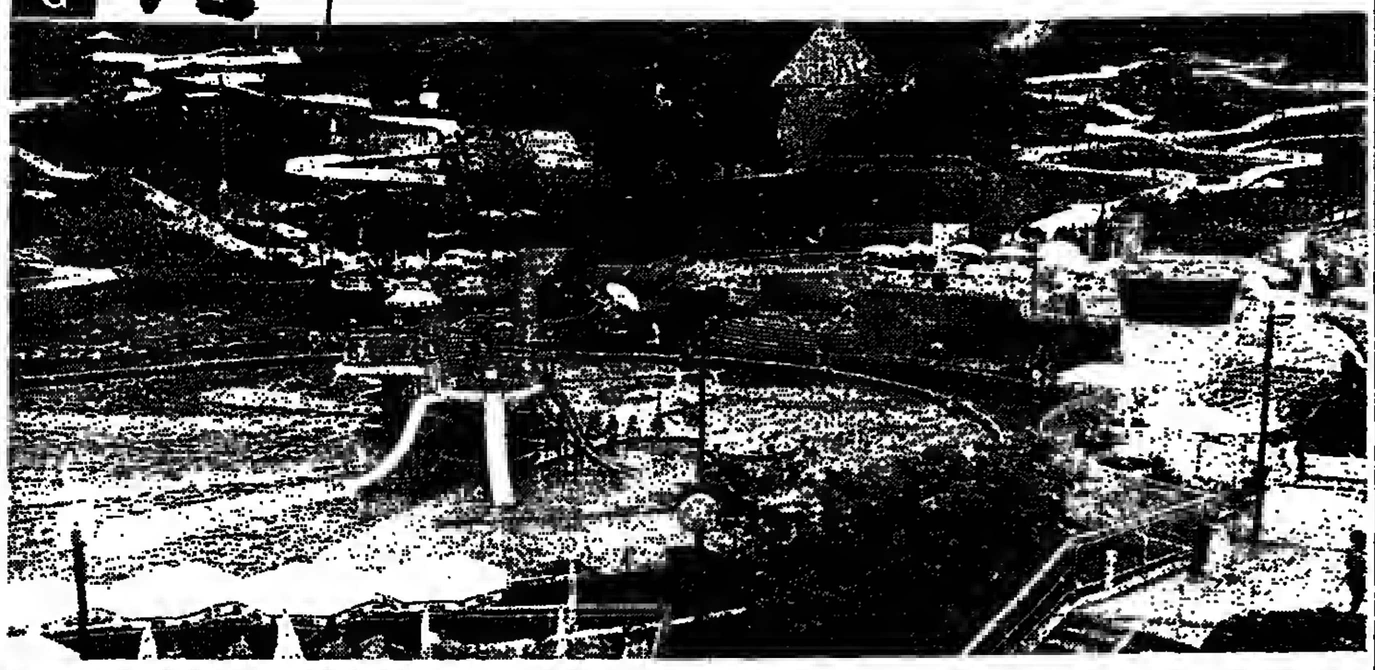
The government is investing another HK$117m during this financial year and next on programmes that include training to improve English language teaching by local teachers, and providing additional English language teachers for schools which are making greater use of Chinese as the medium of instruction.

For Dr Wang, the success of these measures is crucial. "Bilingualism is the bedrock of our success," he says. "We don't have a national economy like Japan, and we have no natural resources. We survive on the edge of other economies, and we need the international tool of English."

Kevin Hamlin

Tourism

Tip of the iceberg



Aberdeen's Ocean Park water complex

SPURRED ON by the depreciation of the US dollar-linked local currency and a continuing upturn in travel to China, Hong Kong's tourism industry has recorded spectacular growth during the past few years.

Last year alone, visitore increased by a fifth to a record 4.5m. They spent HK$25bn – 44 per cent more than in 1986. Tourism is the territory's third largest earner of foreign exchange revenue, behind textiles, clothing, and electronics.

Japanese laden with pocketfuls of rapidly-appreciating yen began invading the territory in 1986. Their presence is so overpowering now that several exclusive brand-name stores lock their doors for up to an hour at a time in an attempt to retain order. The compliant Japanese shoppers queue patiently outside.

The 1m Japanese who visited the territory last year, 42 per cent more than in 1986, spent HK$7bn – almost twice their shopping bill of a year earlier. But the growth of Japanese visitors to the territory was still outstripped by a sudden deluge of Taiwanese.

The Taiwan government's decision to ease restrictions on travel to China was the trigger. More than 61 per cent more Taiwanese came to Hong Kong, many of them stopping over before visiting long-lost relatives on the mainland.

With the extra value provided by the stong New Taiwan dollar, Taiwanese spent HK$1.6bn last year, more than double the previous year's total. Having recruited Japanese-speaking staff last year, many shops are now hiring Mandarin speakers as well.

The upward arrivals trend shows no sign of abating. During the first quarter this year arrivals surged 22.9 per cent to 1.14m. Growth from Taiwan soared 90 per cent, while from Japan there was a further 27 per cent increase.

The Hong Kong Tourist Association estimates that nearly 1m visitors to the territory have either been to, or go on to China. "If China gets its act together and continues developing its infrastructure and hotels, this is just the tip of the iceberg," said Martin Barrow, HKTA chairman.

The primary beneficiaries of the tourism boom are the territory's hotels, which were bursting at the seams last year. City-wide occupancy was then 90 per cent, compared with 85 per cent a year earlier. Hotels were booked virtually solid from May through to November last year, with occupancy not falling below 89 per cent for that entire period.

Some leading hotels achieved gross operating profits of up to 60 per cent last year, making them the envy of hotel companies worldwide. In 1986, the latest year for which figures are available, hotels' pre-tax profits increased by 16 per cent to HK$1.76bn, according to the HKTA.

Not surprisingly, the strong performance has drawn developers into the market, and a gigantic building boom is now underway. Hotel room capacity is projected to increase by more than a half to 32,296 rooms by 1990. This year alone, 10 new hotels are due to open, together adding more than 4,000 rooms.

China has also played its part in this building programme. Guangdong Enterprises, China Travel Service, China Merchants and a number of other mainland companies have taken equity stakes in new projects.

Despite the huge increase in room capacity, hoteliers and the HKTA remain confident that occupancies will not fall below 71 per cent, even in 1990. That forecast is also based on a conservative arrivals growth projection of 5 per cent per annum in 1989 and 1990. This year the HKTA expects 11 to 14 per cent growth, bringing total arrivals to some 5m.

Confident they can fill the additional rooms, hotels have been hit hard by the territory's labour shortage. Some leading hotels reported staff turnovers as high as 30 per cent last year. With all the new rooms under construction, it is estimated the industry will need to recruit an additional 13,000 staff by 1990.

The benefits of the tourism boom have percolated into other sectors of the economy. More than 50 per cent of visitor expenditure goes on shopping, which has helped buoy the territory's retail sector.

There are now nine Japanese department stores operating in Hong Kong, and chains such as Mitsukoshi and Matsuzakaya get up to a fifth of their sales from their free-spending countrymen.

But despite the tourism industry's undisputed contribution to the territory's economy, travel industry leaders believe it gets insufficient support from the government. Some even say the government milks the industry's earnings but does not plough anything back.

Such allegations are prompted by the HK$100 airport tax, which was reduced from HK$120 in this year's budget, and recent moves to raise rates levied on hotels by 150 to 200 per cent. The industry is also impatient for a government decision on the construction of a new airport to replace Kai Tak, which is a congested, one-runway facility.

Referring to the contentious airport tax, Mr Douglas King, HKTA's general manager of marketing, said: "We would like to see taxes which are generated by travellers and tourism channelled back in a variety of ways to sustain the long-term growth of the industry."

For the immediate future, however, the tourism industry's growth seems assured with or without greater government help. "There are almost no markets from where we would expect a drop this year," said Mr King, who added that 83 per cent of visitors to the territory indicate they will return.

Kevin Hamlin

The arts

Chinese culture is in vogue

Audiences for local arts far exceed audiences for Western performances

DESPITE SOME 150 years of British rule and the cosmopolitan East-West crossroads location, Western arts have barely touched most of Hong Kong's 5.5m population. Rather, inbred Chinese family ties, centuries-old traditions, Middle Kingdom chauvinism, plus the all-pervasive Chinese-ness, have made Hong Kong little different from any other province of China in the expression of a powerful regional identity – here, Cantonese.

After a brief flirtation with Western music and film back in the 1950s and 1960s, with unification with China imminent, Hong Kong now evinces a kind of cultural schizophrenia. On the one hand, there is an increasing assertion of Hong Kong/Cantonese identity; on the other, a growing awareness of arts from other parts of the mainland.

Certainly, 1997 is forcing people to look at their own Chineseness and while most of the revival of interest in Chinese arts is spontaneous, much is sponsored by Hong Kong-originated organisations of which the Institute for Promotion of Chinese Culture is the most prominent. But, whatever the reason, the mainstream professional arts and the myriad grass-roots cultural activities both indicate that Chinese arts are very much in.

About 75 per cent of the performances at Hong Kong's main venues are Cantonese. Audiences for these local arts outnumber those for Western arts by four to one in the central areas, and by as much as six to one in the region as a whole. A noticeable feature even for traditional entertainment is the increase in young people.

Theatre and dance are useful barometers. Whether straight plays – such as Lao She's classic in Mandarin Tea House – a sell-out even two years ago with 75 per cent of the audience under 35 years – or modern Cantonese versions of classics, both Chinese and Western – attendances are up.

The repertoires of the hugely popular Hong Kong Rep and Chung Ying companies include even Cantonese translations of major Western works – from Shakespeare to Alan Acykbourn and Neil Simon, West Side Story to Cabaret and I am not Rappaport.

Works with a distinctive Hong Kong identity are beginning to appear in repertoires

Works with a distinctive Hong Kong identity, written by first-generation Hong Kong-born dramatists are beginning to appear in theatre and dance repertoires. I am Hong Kong by Raymond To and Hardie Tsoi typify the best of the new genre.

A recent adaptation of Brecht's Seven Deadly Sins by City Contemporary Dance Company received Hong Kong showbiz treatment. With local composer Eric Poon's music and vocals by pop idol Elisa Chan, a Hong Kong night-club, complete with games, provided the setting.

Avant-garde aside, the Fringe Club with Chinese-Cantonese programming now at 70 per cent, reports an increase even in traditional entertainment. Concerts of Chinese music, "which used to be box office poison," according to Director, Benny Chia, are now in vogue.

At a time when Chinese opera in the Mainland is said to be dying out and many troupes are relying on gimmickry to attract young people, Hong Kong is currently enjoying a Chinese opera boom. As many as 30 different groups offer enthusiastic fans several performances a week – predictably in Cantonese style. Both full-length opera and concerts of operatic hit songs are equally popular, as shown by increased output on radio and TV.

Hong Kong audiences also want to see operas from different parts of China. So far this year, the Territory has played host to eighteen different troupes – from Peking and Shanghai to Sichuan and Jiangsu – in an upward trend.

Dr PK Leung, lecturer in drama at Hong Kong Chinese University, links the current craze with 1997, and remarks how it is mirrored in the interest in learning Mandarin. "Hong Kong people feel we know Western culture but we are not versed well enough in our own. In nine years we will join up again with the Mainland. Chinese opera is a way to learn about our Chinese heritage," he explains.

One of the Territory's great musical success stories is the Hong Kong Chinese Orchestra, currently enjoying 100 per cent of capacity audiences, 80 per cent of which are aged under 35. Regular commissions to the region's 40 or so composers has made the orchestra an important patron of modern music – so much so that the composers now lead the field in contemporary Chinese music.

International recognition culminates in the autumn when leading composers from round the globe converge on Hong Kong for the annual world contemporary music festival – the first ever for Asia.

But the biggest music story must be the boom in Cantonese pop and film. With the preference for local artists – declining Western pop has only 20 per cent of the record sales – stars like Anita Mui, Leslie Cheung and George Lam, and bands such as Raidas and Taichi, tower over the market.

The minimal interest in Western pop is demonstrated by the contrast with neighbouring Tokyo. There, a different group can be seen nightly, while Hong Kong musters at best, one a month. Of these, local expert Mr Kievin Yim explains that "most are one-night promotional gigs for the record companies and commercial radio."

The film scene is even more chauvinistic. Hong Kong must be one of the few cities round the world to give the thumbs down to last year's blockbuster Crocodile Dundee. Earning only HK$5m during its short run, it was outgrossed by such local hits as The Happy Bigamist (HK$22.5m), Sister Cupid (HK$11.5m) and Vampire's Breakfast (HK$6m). Currently Hong Kong films, The Truth and Profiles of Pleasure, are outdoing Oscar winners Wall Street and Broadcast News.

Good news for serious films buffs, though, is the increase in Chinese films from the Mainland's New Wave directors in Shangai and Xian – Hong Kong box office earnings being an important source of foreign revenue for China's government.

In contrast to the escapism and mediocrity of Hong Kong cinema, dance and drama are tackling serious social concerns. In a phenomenon that started in 1984 during the Sino-British talks, each new crisis in the run-up to 1997 is increasingly accompanied by a spate of fringe productions on the subject.

The ironically-named Anonymity Theatre Club recently performed the first play in Hong Kong about the Cultural Revolution, "so that Hong Kong people can know the truth and learn what may face them in future," explain director, Simon Wong. Contemporary Dance Company Founder Willy Tsao says that artists cannot fail to be influenced by concern for post-1997. One song in their Seven Deadly Sins asked Will Our Prosperity Continue? The Company's Artistic Director Helen Lai adds that although she tries not to think too much about the future, "the rhythms and atmosphere of my work inevitably express the anxiety we all feel".

Zuni, though, is the most overtly political group. Led by Danny Yeung and drawing up to 20,000 young people for each production, the group creates its work round the feedback and views of its young followers. To date, they have dealt with issues arising from the Sino-British Joint Declaration, the Censorship Bill, Direct Elections, the Basic Law, and such taboo subjects as homosexuality. Mr Yeung explains the Company's concerns by saying that "in no way can we artists isolate ourselves from what is happening around us. So I feel compelled to speak out."

Zuni's current production is The Decameron. This medieval work about a corrupt Florentine aristocracy, diverting itself by bawdy story-telling in the midst of plague-fed human misery, is used as an analogy for the perceived current malaise in Hong Kong's main legislative body, said to have become a mere talking shop and no longer representative of the views of the local citizens.

On a more positive note, though, several of Hong Kong's contemporary performers and administrators are already forging links with their Mainland counterparts in the arts, giving workshops and lectures. Meanwhile, traffic of cultural officials and artists in the opposite direction is increasing too.

Now that China's economic reforms are underway, the next area for government-led reform is the arts. Hong Kong's expertise has already been sought. Despite worries about 1997, nothing is more likely to activate and consolidate those powerful inter-Chinese ties than joining forces on a cultural project.

Whatever the political leanings of a Hong Kong artist, after a working visit to the Mainland, he or she seems to exude a satisfaction that has come from working as a Chinese together with other Chinese. In cultural terms at least, the pull of the motherland is clearly irresistible.

Marie Meyerscough

A guide to the mainland's chief players

China's most powerful enterprises in Hong Kong

AS CHINA'S main "window" on the outside world, Hong Kong is brimming with some of the mainland's most powerful enterprises, and has attracted mainland investment on a massive scale. Once upon a time, most of these enterprises were focused on handling China's export trade. Today, however, they have diversified to become an important force in the local economy, often using Hong Kong as a launching pad for international fund-raising, or foreign investment. Below are some of China's main players in Hong Kong.

Bank of China Group

Total assets at end 1987: HK$225bn
Total deposits at end 1987: HK$139bn
Chairman: Huang Diyan
(And see separate article on banking.)

This comprises the Bank of China itself – Peking's foreign exchange bank – and 13 "sister" banks – 12 based in Hong Kong and one in the Portuguese enclave of Macao. Most of the sister banks were up to 1949 active throughout China. After "Liberation" in 1949, the Communist government nationalised all mainland banks, amalgamating them into the People's Bank of China. The bank branches in Hong Kong tried to go it alone after 1949, but over a four or five year period, eventually sought shelter with the Bank of China.

Until 1979, they were mostly involved in trade finance, and had minimal involvement in the local retail banking sector. Since Deng Xiaoping launched China's "open door" policy, they have expanded rapidly into local retail banking, providing aggressive competition in a market that is already regarded as "over-banked". They have also developed specialised roles – gold trading focused on Po Sang Bank, loan syndications on the Bank of Communications, and merchant banking on the Nanyang Commercial Bank, for example. They have also taken on special – though not exclusive – responsibility for funding the development needs of different areas inside China.

China Resources

Nominal capital: HK$500m
Turnover: undisclosed and unknown
Chair: Madam Zhu Youlan

Set up in 1948 as the trading arm of the Ministry of Foreign Economic Relations and Trade. It had a monopoly of China's foreign trade through Hong Kong until 1983. Headquartered in a major development on Hong Kong island's Wanchai waterfront, it still plays a dominant role in handling the country's foreign trade, with a total of 43 subsidiary operations.

It has nevertheless been more powerfully effected by economic liberalisation in China than almost any other mainland corporation. This is due to the proliferation of trading companies in the territory handling the foreign trade of individual provinces, cities, and even municipalities. It is estimated that there could be as many as 6,000 such trading companies now operating in Hong Kong.

Most recently, it has emerged as a direct investor in numerous development projects in Hong Kong. It has even taken stakes in publicly listed companies – including Tian An, and Conic, the once-leading electronics group that it rescued after a collapse in which massive fraud was discovered.

China Travel Service

General Manager: Ma Chimin

Set up in 1928, it is controlled by the Office of Overseas Chinese Affairs in Peking. It handled 2.13m travellers into China last year, entering the country by land, sea and air. This involved handling about 1,800 air flights. Also has major cargo and trading interests handled through 18 subsidiaries operating in Hong Kong. With four major go-downs in Hong Kong's new territories, it is responsible for handling all cargo that comes into Hong Kong by rail along the Kowloon-Canton railway. It has a fleet of six lighters to tranship cargo from the railway terminus to vessels in Hong Kong's harbour.

Among its trading interests are a voucher-issuing business by which people in Hong Kong can buy vouchers for electrical appliances and send the voucher to friends and relatives in China where the appliances can be collected from one of 25 collecting points across the country. Turnover last year was valued at HK$7bn, with an expected HK$10bn this year. A total of 18 companies are doing such business in Hong Kong at present, but China Travel claims a 60 per cent share of the business.

With 18 outlets in Hong Kong, and a total of 3,000 staff, it also has branches in a further 8 countries worldwide. It has a monopoly of the traffic in tourists to mainland China from Taiwan, which has been allowed only since November last year. So far, about 100,000 Taiwanese have visited the mainland as tourists, staff say.

Tian An Development

Controls China's only publicly listed company in Hong Kong, Tian An (China). Twenty per cent stakes are held by China Resources, the Bank of China, and the New China News Agency. A further 25 per cent is held by Sun Hung Kai, the financial services group, with Mr Andrew Chow, a former Sun Hung Kai executive, holding the remaining 15 per cent.

Claims to be the only true "China play" on the Hong Kong stock market, with most of its investments in hotels on the mainland.

Guangdong Enterprises

Chairman: Zheng Kangming

Owned by the Guangdong Provincial government, it was registered in Hong Kong in 1980 with paid up capital of HK$50m. Its primary aim is to handle the province's foreign trade and investment, and to attract inward investment to the area. It has invested in property and hotels, mainly in the Western district of Hong Kong island, and is understood to have 32 subsidiaries and joint ventures.

Fujian Enterprises

Chairman: Zhou Huiyuen

Owned by the Fujian provincial government, it was set up in September 1980 with a paid up capital of HK$3m. Again, initially its aim was to promote foreign trade, attract foreign investment, and to look for investment opportunities in Hong Kong and further afield. It is understood to have about 24 subsidiaries active in Hong Kong, with joint ventures ranging from property to manufacturing.

Yue Xiu Enterprises

Chairman: Liang Shengli

Owned by the Guangzhou (Canton) municipal government. Set up in December 1984 with a paid up capital of HK$5m. Currently planning to raise around US$400m for a steel plant, and an ethylene plant outside Canton. Mainly involved in property investment in Hong Kong, securities trading, and joint venture manufacturing projects both in Hong Kong and in the Pearl River Delta.

David Dodwell

China Merchants' Steam Navigation

Now a complete shipping system

China Merchants' new hotel in Hong Kong's Western District

CHINA MERCHANTS', one of *Peking's oldest companies in* Hong Kong, is wheeling and dealing with the best of them despite its staid appearance. While not quite in a Mao suit, Mr SS Chu, General Manager of the administration division of China Merchants' Holdings Co and senior executive of two subsidiaries, sits flanked, mainland-style, by his officials, one of whom continually takes notes.

But his impassive face breaks into a wintry smile *when asked about corruption* among mainland officials in Hong Kong: "We may be a shipping company but we haven't any yachts," he cracks.

China Merchants' started as a shipping business and is the agent for Cosco, Peking's shipping company. When Deng Xiaoping introduced China's "Open Door" policy in 1978, it gradually began to diversify. "We're now a multiple business," said Mr Chu. "We've got a complete shipping system, with wharves, godowns, marine supply facilities and a barge fleet."

China Merchants' also runs the Shekou area of the Shenzhen Special Economic Zone, just across the border from Hong Kong. This is an industrial zone, 10 years ago open *fields and now developed into* steel, electronics, plastics and engineering plants. The biggest is a float glass project with PPG of the US. This manufacturing has led to trade, through importing raw materials and exporting finished products.

In Hong Kong, China Merchants' has set up a tour business specialising in Tibet, and that has led to investment in 10 hotels in China. They have also invested in a new hotel in Hong Kong's Western District. *Like other mainland* companies, they have invested in construction and the property market, with three apartment blocks in Pokfulam. They are major shareholders in Hong Kong's Union Bank, which lost them much money in last October's stock exchange crash. This came about through its broking arm (now hived off), which had customers heavily committed in the local futures market.

Mr Chu was reluctant to divulge figures for assets, but estimated they were up by 20 times in the years 1978-87. Future plans include the possible purchase of British insurance companies, which ties in nicely with its shipping business and would enable it to diversify further.

Colina MacDougall

Everbright Industrial

Low profile kept

Mr Wang Guangying

ONE of the great truths of *western capitalism* has dawned on Mr Wang Guangying, chairman of Everbright, one of the Chinese enterprises set up in Hong Kong since the "open door" policy was introduced. "When we invest in China," he said with a grin, "we have to pay over our own money. But in Hong Kong, the cash is borrowed from the bank."

Mr Wang, brother-in-law of China's 1960s head of state, Liu Shaoqi, who died at the hands of Red Guards during the Cul*tural Revolution, delivered this* insight after tussling with another concept that is peculiarly important in Hong Kong: "I cannot work out the 'one country, two systems' idea, yet it seems people quite accept it."

Everbright was set up in Hong Kong in the early 1980s with Mr Wang at the helm – compensation in part for the years of ill-treatment suffered in China by his family. His daughter, Wang Mi, now runs the company's property division.

After an embarrassing misjudgement over a contract several years ago from which it was diplomatically allowed to withdraw, the company has kept a low profile but appears to have traded profitably since. "Everbright lost a lot of money in the stockmarket crash," said a Hong Kong banking expert, "but it had invested in Tokyo and made money there, plus more on the yen exchange rate." It also made HK$120m on the sale of its share of Hong Kong's prestige building, the Bond Centre.

Everbright is now investing in five hotels and a taxi company in Peking, plus another 30 or more joint ventures elsewhere in China. These include a brewery in Wuhan, a chemical plant at Nanjing and silk processing in Shenzhen.

It is also building, along with Lotus of the US, a colour TV tube plant at Yuen Long in Hong Kong's New Territories.

Mr Wang was reluctant to put a value on the company's assets, but some idea of the scale of activity may be gleaned from the US$1.1bn worth of equipment he claims to have imported into China.

Do his plans include a stock exchange listing for Everbright? "I think the company's too young," he said. "But one of our subsidiaries might go public."

Future projects include a hotel in Bangkok. "People say Thailand is the fifth 'little dragon'," he said. "And taxes are lower than Hong Kong's."

CM

Citic has a 12.5 per cent stake in the Hong Kong airline Cathay Pacific

China International Trust and Investment Corporation

Growing away from traditions

CITIC CAME to Hong Kong in 1980, another offspring of China's "open door" policy. Business began to take off in 1985, and last year a Hong Kong holding company was set up under Peking veteran of the oil and steel industries, Tang Ke. Larry Yung, son of Peking Citic's chairman, former Shanghai capitalist Rong Yiren, heads its investment arm.

Citic Hong Kong is now growing fast and rapidly moving away from the traditions of China mainland companies. Now almost 70 per cent of its 110 strong staff are from outside the People's Republic, and its financial director, Vernon Moore, is a westerner previously with Chase.

Henry Fan, executive director, is China-born but educated in Hong Kong and Britain. He was approached last year by a friend who knew Larry Yung, and says he finds working there very pleasant.

Citic claims to have four areas of interest – real estate, shipping, public utilities and industry. In real estate, it buys for rental income or redevelopment. "We're not by nature speculative," says Mr Fan. "We bought the City Garden Hotel last year for HK$240m and sold it soon after for HK$310m, but we'd done a feasibility study and planned to hold it for five years. It was just that prices rose."

Citic went into the shipping business only recently, buying 10 bulk dry cargo vessels. "We're careful," says Mr Fan. "We buy where charter is arranged. In any case, since we started in mid-87 there's been a big upsurge in shipping.

"We're not in conflict with Peking's Cosco – we operate like any Hong Kong shipowner. But if the day comes when China de-monopolises, we'll be well-placed."

Public utilities in its portfolio are represented so far by its 12.5 per cent stake in the Hong Kong airline Cathay Pacific. "We looked at Hong Kong Telecommunications (which Guangdong Provincial Posts and Telecommunications recently bought into) but had no serious discussions," noted Mr Fan. "We bid in a consortium for the Tate's Cairn road tunnel but failed to get it.

"We have industry projects here and in China," he added. "These include a plant here making automotive parts for export to the US, and a joint venture with a local partner manufacturing boxboards. In China we're investing in a power plant at Lijiang in Jiangsu province, and there are two others under discussion in Henan and northeast China.

"About 30 per cent of our business is China-related, and 70 per cent is in Hong Kong and shipping."

CM